Off-Pricers Realize the Importance of High-Profile Brands

Top Off-Price Apparel Specialty Chains

Chain	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change	Number of Stores 1988	Number of Stores 1987	Average Store Size (In Sq. Ft.)
TJX Cos.*	$1,644	$1,395	17.9%	815	750	
T.J. Maxx	1,288	1,050	22.7	305	265	25,000
Hit or Miss (Framingham, Mass.)	350**	340	3.0	510	485	3,500
Marshalls (Wakefield, Mass.)	1,603	1,409	13.8	311	286	29,000
Ross Stores (Newark, Calif.)	576	534	7.9	NA	131	25,000
Burlington Coat (Burlington, N.J.)	490	382	28.3	125	104	55,000
Loehmann's (Bronx, N.Y.)	334	323	3.4	86	80	15,000
Filene's Basement (Wellesley, Mass.)	278	248	12.1	22	22	25,000
Sym's (Lyndhurst, N.J.)	255	223	14.4	NA	18	50,000
Kids 'R' Us (Rochelle Park, N.J.)	250**	125**	100.0	109	74	20,000
ClothesTime (Anaheim, Calif.)	179	161	11.2	NA	341	3,800
Dress Barn† (Stamford, Conn.)	173	135	28.0	365	302	4,000
NBO Stores (Secaucus, N.J.)	86	73	17.8	34	28	8,500

NA—not available

* *TJX Cos., which consists of Chadwick's of Boston, a cataloger, in addition to T.J. Maxx and Hit or Miss, was spun off from Zayre Corp. last year.*

**DSN *estimate*

† *Sales figures reflect company's fiscal year ended July 31, 1987.*

Source: DSN *research*

(Continued from page 29)

Answers included such characteristics as credibility, service, fashion merchandise, selection, quality and value. Summing up the attitude was the response, "Our assortments and our presentation, with our prices being the bonus."

When off-pricers were asked what they offer their customer in the way of perceived value, answers included "brand names," "our selection and price," "40 percent to 60 percent off compared to department stores on all apparel" and "our services, such as credit cards, tailors, very liberal return policies and layaway programs."

Following a trend gaining greater acceptance among full-line discount department store retailers, off-price apparel chains are also favoring an everyday low price strategy over a promotional mentality, the survey revealed.

Strategy Selection

Respondents were asked to name which of the following four strategy or strategies, was used to gain a competitive edge: everyday low prices, promotional, in-depth assortments and one-price concept.

Everyday low prices and in-depth assortments, together, received the greatest number of votes from off-price apparel retailers. Only one retailer answered just "promotional," and only one answered just "everyday low prices."

While price, naturally, remains a key issue in this business, 36 percent of all respondents said in-depth assortments was the one quality that appeals most to their customer, while 45 percent said everyday low prices, and 19 percent said promotional.

As off-pricers more and more begin to resemble regular-priced apparel specialty stores in merchandise carried and presentation, department/specialty stores are becoming more and more promotional, and hence are beginning to resemble off-pricers in terms of price points.

While the off-pricers contacted for the survey acknowledged such promotional competition from above, 64 percent said it would not affect their business strategy. However, a majority—55 percent—said they will be taking some steps to meet the lower pricing competition.

The reasoning of the 45 percent who said they wouldn't be taking any steps included such comments as: " . . . price is not a reflection of quality;" "We already have 20 percent to 30 percent off department store pricing;" and "We are on the upper-end and will remain that way . . ."

As many as 73 percent of the off-pricers participating in the survey said they maintain guidelines for price-point differences between their stores and department and full-price specialty stores, with the same percentage also saying they have a rule-of-thumb percentage. Responses ranged from 20 percent to 60 percent below department/specialty stores.

Off-pricers are also undergoing major upscaling projects. According to the survey, 82 percent said upscaling and upgrading of fixtures and visual merchandise was "very important" to their store, and 73 percent said their chains will be upscaling over the next 12 months. "We plan to improve our store design as far as layout is concerned," said one. Another said that chain is planning "better lighting and [more] poster boards."

Off-Pricers Post Growth, Plot Aggressive Expansion

It's apparent that the strategies being pursued are succeeding. Evidenced by the accompanying chart of the top 12 off-price apparel chains, these retailers experienced significant growth in 1987, and projected expansion in store units this year is aggressive.

One of the key strategies every off-pricer is pursuing is a continued emphasis on stocking the major brand names.

Marshalls' experience over the past two years is a perfect example of the importance of high-profile brands.

In 1986, Marshalls' comparative store sales fell 0.8 percent and the chain also saw a decrease in operating profits.

Marshalls recognized the problem: the chain had been putting practically any label it could get out on the floor and promoting it. The emphasis was not on the major, popular brands and labels.

Starting early last year, Marshalls, which also stepped up image advertising on television and radio, shifted back to better brand names with a fashion cachet and has gotten back on track. Comparable store sales increased 6.5 percent last year, and overall sales rose 13.7 percent, compared to a 7 percent increase from 1985 to 1986.

The new TJX Cos.—which combines T.J. Maxx, Hit or Miss and Chadwick's of Boston (the latter being a negligible contributor to overall sales)—edged out Marshalls last year as the largest off-price chain.

However, as far as individual chains go, Marshalls is still No. 1 in sales, with T.J. Maxx No. 2 (see story, page 34).

The survey also backed up the importance of brands. As many as 91 percent of all respondents said brand names are an important attraction for their stores, with 50 percent saying their percentage of upscale brands were increasing as part of the product mix, and the other 50 percent saying it was maintaining. No one said upscale brands were being decreased as part of the mix. The average percentage increase was 20 percent.

Not only are existing off-pricers increasing their store counts, but new players are taking the field and are beginning to make an impact.

Following the Example

Following the Filene's/Filene's Basement approach, Nordstrom spun off Nordstrom Rack, an off-price operation, as freestanding units several years ago. There were 11 units by 1987 year-end.

And earlier this month, Neiman-Marcus, the upscale department store, opened a 30,000-square-foot off-price unit, called Last Call (named after the retailer's famous January and July sale periods), in Austin, Texas. The unit will primarily sell apparel—at 65 percent or more off the original retail price—but also includes shoes, accessories and certain home products. A second unit is planned for Wayne, N.J.

This year's census chart of the top off-price apparel chains features a handful of changes that include the appearance of Kids "R" Us, which doubled its sales volume in one year and made the top 10 listing this year.

Also, Sizes Unlimited, since it traded up, out of the off-price business, is no longer included in the chart listing.

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Home Products

NHMA Study Unveils Top Growth Categories

By Mary Ellen Kelly

CHICAGO — Tabletop and serving pieces, cookware and bakeware, and furniture were the top growth areas in this year's housewares survey conducted for the National Housewares Manufacturers Association.

Unveiled last month, this report is the first in a new series of housewares studies conducted by Touche Ross & Co. for the NHMA.

The Touche Ross study, called "Highlights of 1987 Sales and Marketing Performance, Trends and Issues," marks the end of two decades of annual industry reports by Chicago-based B. Angell & Associates.

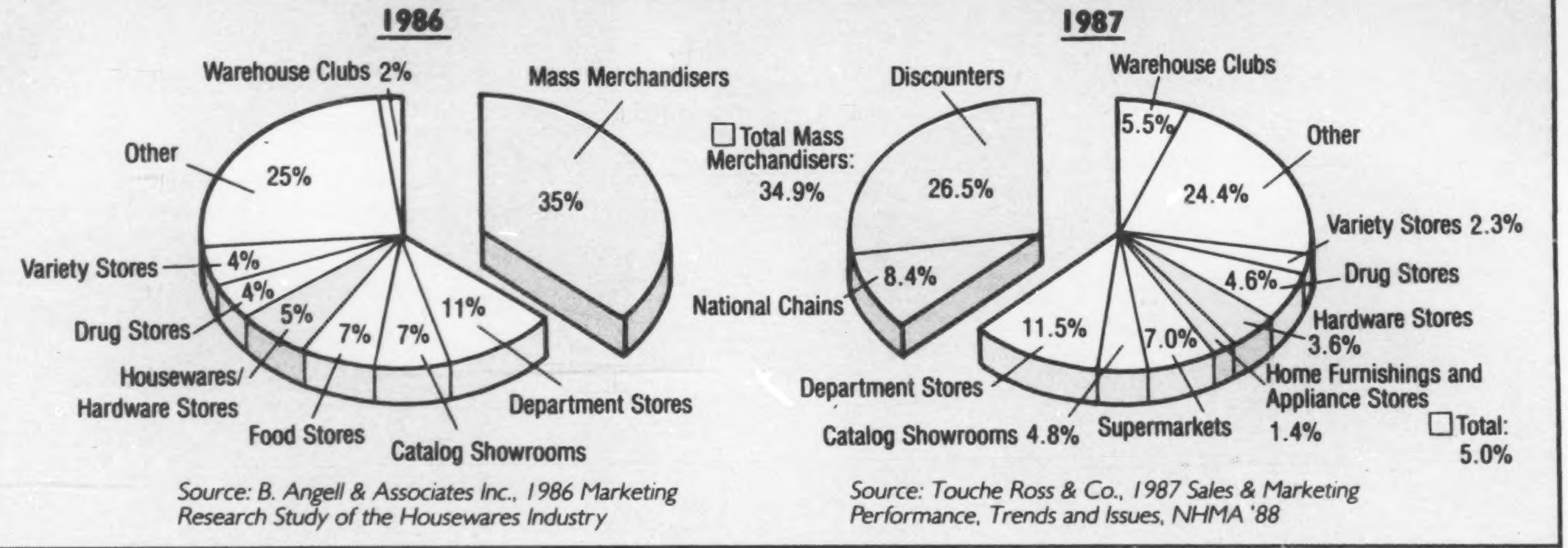
Jay Spaulding, NHMA president, last year decided to replace B. Angell with Touche Ross, as part of his conviction to become "the definitive resource for housewares industry figures anywhere." At the time, he said the former NHMA research source, B. Angell, was a firm that was, "competent for the consumer level."

The Touche Ross study offered much of the same type of information as previous years' reports by B. Angell, but unlike its predecessor, Touche Ross gave insight into which product groups were enjoying above average sales growth during 1987.

Tabletop and serving pieces, cookware and bakeware, furniture and, to a lesser extent, cleaning products, were the four groups where there was a higher than average concentration of "high growth" companies.

Housewares Sales Distribution by Channel

Warehouse clubs increased their share of total housewares volume last year, at the expense of catalog showrooms.



Source: B. Angell & Associates Inc., 1986 Marketing Research Study of the Housewares Industry

Source: Touche Ross & Co., 1987 Sales & Marketing Performance, Trends and Issues, NHMA '88

Housewares companies reporting a sales increase of 23 percent or above between 1986 and 1987 were considered to be in a high growth mode. The housewares industry as a whole grew at a 7 percent rate during the same time period. No companies that were less than a year old were included in the "high growth" grouping.

While the two research firms undertook different approaches to measure the size and direction of the industry, both used NHMA members as the primary data source. And as a result, sales by channel figures differed little between the two studies.

The B. Angell research had a retail channel called "mass merchandisers" which accounted for 35 percent of total volume in its last study (for fiscal year 1986). The current Touche Ross report has two separate groups called "discounters" (27 percent) and "national chains" (8 percent). These two channels combined are likely to be synonymous with B. Angell's category of "mass merchandisers" which were gauged to be 35 percent of total industry volume during 1986.

If the two studies are to be viewed as comparable to one another, membership warehouse clubs was the outlet that experienced the highest rate of growth while catalog showrooms had the highest growth rate decline. In last year's survey, warehouse clubs garnered 2 percent of total business. This year's Touche Ross survey reported that warehouse clubs' market share in housewares grew to nearly 6 percent.

Catalogers—which had been the third largest outlet in the 1986 study, behind mass merchandisers and department stores—dropped from 11 percent to under 5 percent of sales in 1987, according to Touche Ross.

Spaulding and Dan O'Conner, a Touche Ross spokesman, said that catalogers and warehouse clubs had the bulk of their sales within similar product groupings, including small electrics, cookware and bakeware. Catalogers outpaced clubs in furniture while warehouse clubs did more business than catalogers in kitchen accessories items, they said.

"If you take a look at the data, all housewares sold through the catalog channel is shrinking. They have been de-emphasizing housewares and it is no wonder their share of the business is falling," Spaulding said.

The glossary included in the Touche Ross survey helped define which stores were included in a given retail category, resulting in more accurate sales-by-channel data.

While the housewares retail industry was subdivided into 16 distinct channels—ranging from department stores to company outlets, mail order, and gift, novelty and souvenir stores—there remained an over 5 percent "other" category. In fact, the "other" category was the seventh largest retail channel.

Spaulding explained that a considerable portion of the "other" channel represented military outlets which he estimated to be the ninth largest retail channel in the country, generating a high amount of business in the housewares and health and beauty aids product categories.

Recording Industry to Continue Fight Against DAT Recorder Sales

By Josephine Fiamingo
Nationwide DSN Report

Just when consumer electronics manufacturers thought they had won their battle to market unrestricted-use digital audio tape recorders in the United States, the recording industry has begun preparations for Round 2 of its fight to keep the new technology off the market.

Many industry observers felt that DAT recorders had the "green light" to be sold here after the recent release of a National Bureau of Standards study reporting that the CBS chip—designed to prevent duplication of prerecorded software—does not work well and diminishes quality.

Despite the report, however, the Recording Industry Association of America vowed to continue its efforts to protect the sales of prerecorded tapes, records and compact discs. Earlier, the RIAA had reached an agreement with the Electronic Industries Association to let the National Bureau of Standards decide on

(Continued on page 71)

MARKETWATCH

CHICAGO — **Montgomery Ward** opened six new specialty stores in one day last month: three in Chicago and three in Indianapolis, a new market for the general merchandise and specialty retailer. On April 14, Ward opened units acquired from Federated Department Stores in three Indianapolis malls. These stores contain Ward's Home Ideas (home furnishings), Electric Avenue (electronics and appliances) and Apparel Store specialty categories. One of the units also has an Auto Express and another is slated to add the auto parts and service department at a later date. In the Chicago area, Ward opened Home Ideas, Electric Avenue, and a Gold 'N Gems jewelry unit in a former McDade's catalog showroom in Aurora. An Auto Express unit is planned in a separate building at this site. "We are right on our plan for opening more than 200 stores within the next five years and more than 20 in 1988," said Bernard F. Brennan, president and chief executive officer.

* * *

MELROSE PARK, Ill. — **Polk Bros.**, a discount specialty chain specializing in appliances, television sets, stereo, furniture and carpeting, announced that it will rebuild a Polk retail store and corporate headquarters, which were destroyed in a fire last year. The 10-store Chicagoland chain also said that additional new sites are under consideration for expansion this year. Lester Bachmann, newly-elected chairman and president of the privately-held firm, also announced the election of new officers: Sol Polk, founder, was named chairman emeritus; Michael Crane, previously secretary-treasurer, was named vice president for operations; Howard Polk, previously a merchandising manager, was named treasurer; and Paul Fischer, corporate counsel, has the added responsibilities of secretary to the corporation.

* * *

PLYMOUTH, Mich. — **Highland Superstores** reported its sales rose 15 percent to $753.4 million for the year ended Jan. 31. Net income for fiscal 1987 declined 31 percent to $13.9 million (76 cents per share), from $20.2 million ($1.11 per share). The 1987 earnings include a credit of about $5.7 million, from the cumulative effect of accounting changes related to inventory costing and to extended service contracts. In addition, comparable store sales (those open at least 24 months) fell 10 percent last year. The chain of 73 electronic superstores was particularly hurt in the fourth quarter: Even though sales were up 21 percent to $270 million, net income fell 48.6 percent to $3.6 million. The company noted sales and gross margins for the year were adversely affected by the weak economic conditions in Texas and by softening economies and increased competition in other major markets in which it operates. Gross profit margins and SG&A expenses were also adversely affected by promotions associated with store openings, particularly in new markets. Highland operates stores in Michigan, Ohio, Indiana, Rhode Island, Wisconsin, Minnesota, Massachusetts, Illinois, Texas and Louisiana.

AD Activity Survey: Consumer Electronics, Bradlees, February 1988

Product	Brand	Model/ Description	Sale Price	Regular Price
Answering Machine	GE	2-9860	$69.99	$89.99
Calculator, Hand Held	Canon	PZ-D, 8 digit	14.99	19.99
Calculator, Hand Held	Sharp	EL1611S, 10 digit	19.99	24.99
Calculator, Desk Top	Canon	P20DX	24.99	29.99
Calculator, Printer	Casio	FR125, 12 digit	39.99	
Micro Speakers	Sanyo	SP-4	7.99	9.99
Phone, Cordless	AT&T	4110	69.99	89.99
Phone, Slimline	GE	2-9110	19.99	24.99
Phone, Speaker	GE	2-9355	49.99	59.99
Radio/Cassette	Sanyo	MGR62	24.99	34.99
Stereo Radio, Boom Box	Sanyo	M7024	39.99	59.99
Watch	Armitron	his/her	29.99	39.99

Source: Vereen & Associates, Indianapolis, May 1988

AD Activity Survey: Consumer Electronics, Zayre, February 1988

Product	Brand	Model/ Description	Sale Price	Regular Price
Answering Machine	Phone-Mate	6800	$49.99	$69.99
Calculator, Solar	Casio	MS8W	7.99	
Calculator, Solar	Casio	SL300H	4.99	
Cassette Jogger	Emerson	CRS24/23	19.99	25.97
Cassette Jogger	Lenoxx	892	6.99	9.99
Clocks, Wall	Sunbeam/Spartus		8.99[r]	9.99-13.99
Headset	CEC	RHP0360	6.99	9.99
Headset/Speaker Combo	Randix	HPS900	6.99	9.99
Phone, Cordless	Lenoxx	PH605	39.99	49.99
Phone, Cordless	Unisonic	6080	49.99	59.99
Phone, Memory	Randix	TLM1200	14.99	19.99
Phone, Slimline	Randix	TL1100	12.99	15.99

[r]—price does not include rebate offer

Source: Vereen & Associates, Indianapolis, May 1988

Ad Activity Survey

Ad Activity Survey is conducted monthly by Vereen & Associates, Indianapolis. It provides information on items, brands, models and prices of various products advertised by major retailers across the country. This month, *DSN* spotlights some consumer electronics products on sale at Bradlees and Zayre in February.

MANUFACTURER NEWS

NEW YORK — **Fieldcrest Cannon** has obtained a license from **Pillsbury** allowing the company to use Pillsbury's well-known commercial characters on a collection of kitchen textiles.

Characters and logos include the Pillsbury Doughboy and Little Green Sprout, two of television's most familiar animated product characters.

According to a Cannon spokesman, the kitchen collection will be available this spring. The Doughboy recently finished first in two commercial character polls, including *Advertising Age*'s "Whom Do You Love" competition, Pillsbury said.

* * *

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ARCHBOLD, Ohio — **Sauder Woodworking**, manufacturer of Foremost ready-to-assemble furniture, will be using a new Sauder logo as it drops the Foremost name.

Use of both names by the manufacturer created, "confusion of identity," according to a Sauder statement.

The new logo is being phased into company advertising, cartons, instruction sheets and trucks as the Foremost name is eliminated. The logo consists of the name, "Sauder woodworking," with the Sauder name in large, bold-face type.

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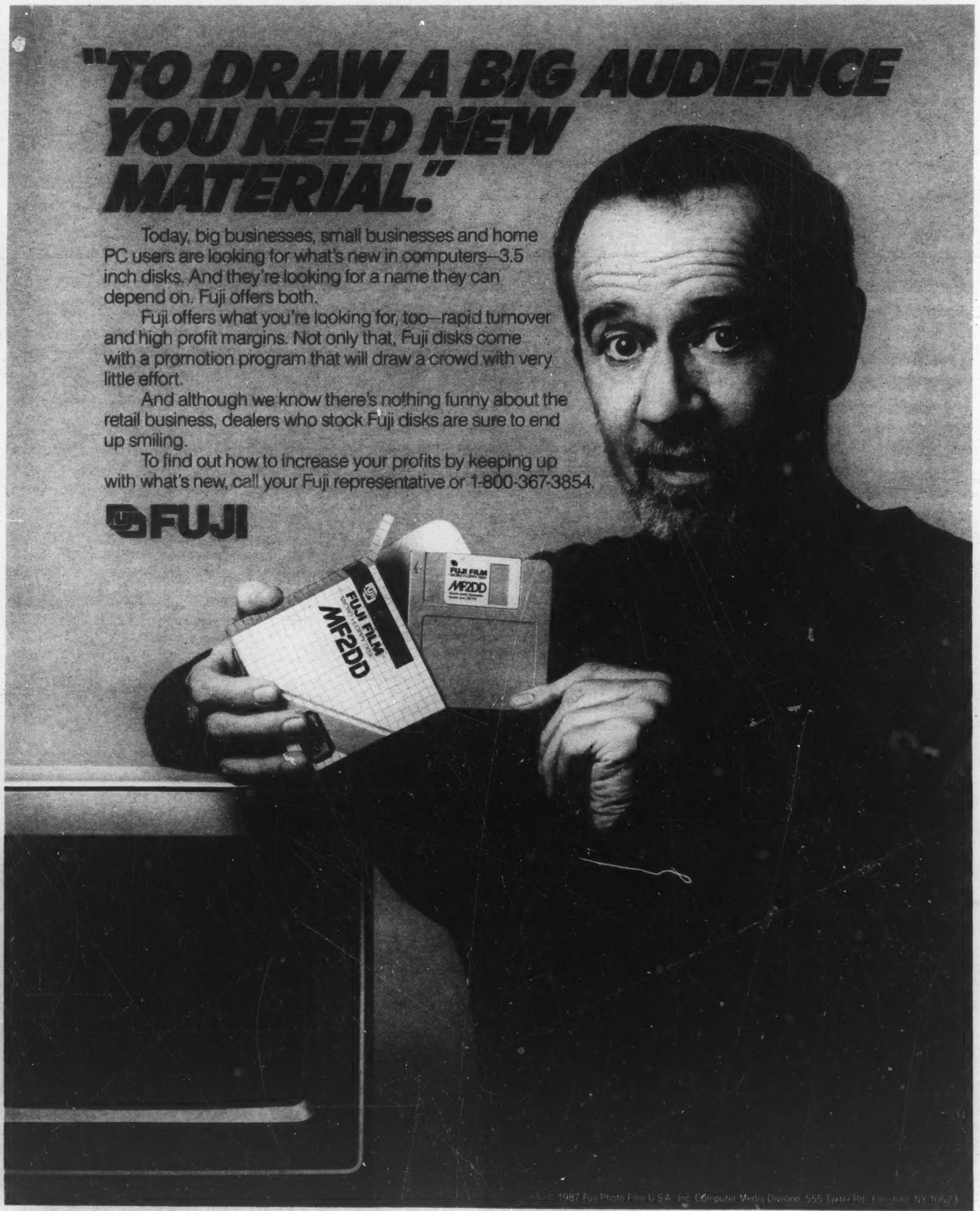
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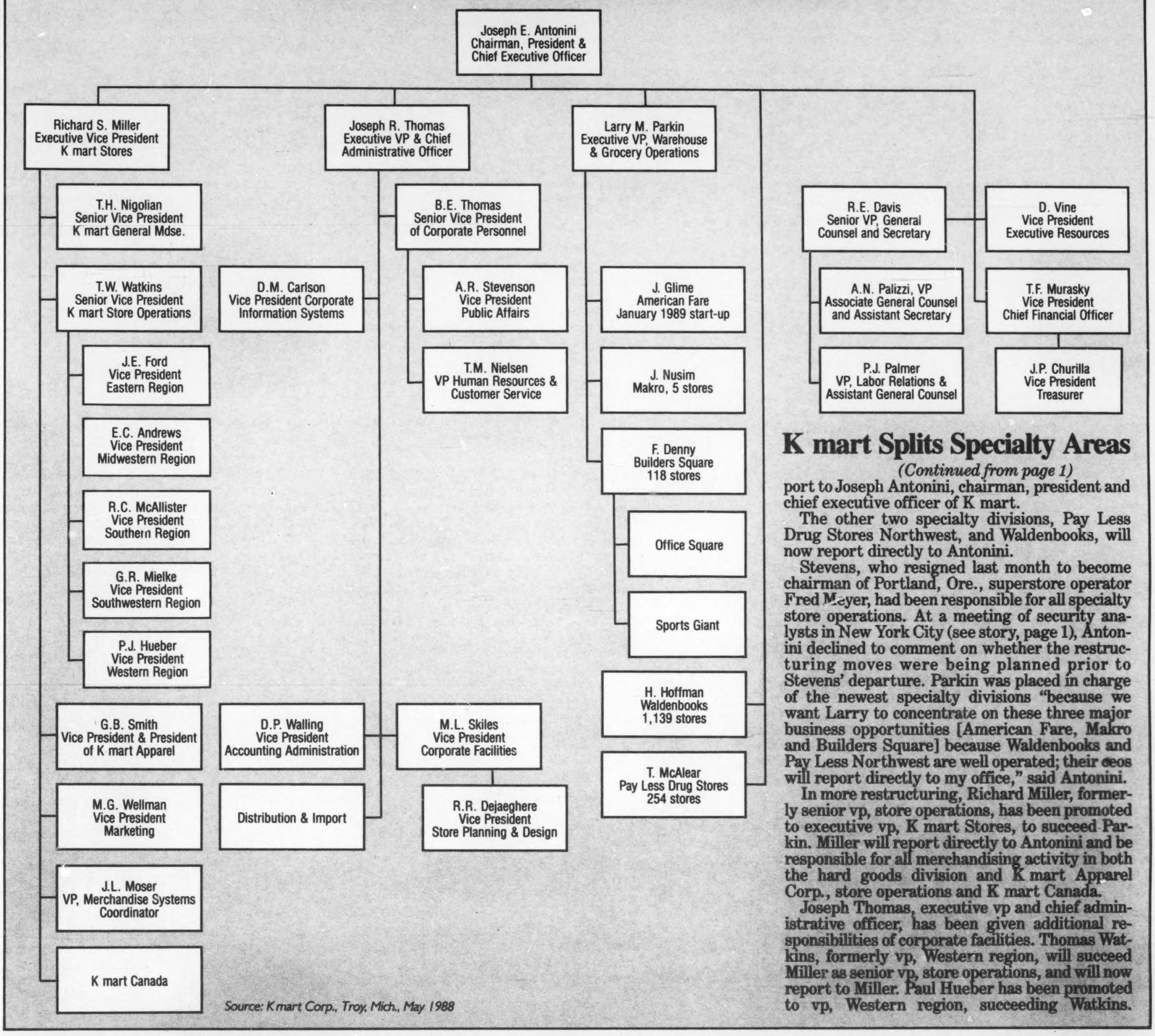
The New Flow of Reponsibilities at K mart


Joseph E. Antonini
Chairman, President & Chief Executive Officer
Richard S. Miller
Executive Vice President K mart Stores
Joseph R. Thomas
Executive VP & Chief Administrative Officer
Larry M. Parkin
Executive VP, Warehouse & Grocery Operations
T.H. Nigolian
Senior Vice President K mart General Mdse.
T.W. Watkins
Senior Vice President K mart Store Operations
J.E. Ford
Vice President Eastern Region
E.C. Andrews
Vice President Midwestern Region
R.C. McAllister
Vice President Southern Region
G.R. Mielke
Vice President Southwestern Region
P.J. Hueber
Vice President Western Region
G.B. Smith
Vice President & President of K mart Apparel
M.G. Wellman
Vice President Marketing
J.L. Moser
VP, Merchandise Systems Coordinator
K mart Canada
D.M. Carlson
Vice President Corporate Information Systems
D.P. Walling
Vice President Accounting Administration
Distribution & Import
B.E. Thomas
Senior Vice President of Corporate Personnel
A.R. Stevenson
Vice President Public Affairs
T.M. Nielsen
VP Human Resources & Customer Service
M.L. Skiles
Vice President Corporate Facilities
R.R. Dejaeghere
Vice President Store Planning & Design
J. Glime
American Fare January 1989 start-up
J. Nusim
Makro, 5 stores
F. Denny
Builders Square 118 stores
Office Square
Sports Giant
H. Hoffman
Waldenbooks 1,139 stores
T. McAlear
Pay Less Drug Stores 254 stores
R.E. Davis
Senior VP, General Counsel and Secretary
A.N. Palizzi, VP
Associate General Counsel and Assistant Secretary
P.J. Palmer
VP, Labor Relations & Assistant General Counsel
D. Vine
Vice President Executive Resources
T.F. Murasky
Vice President Chief Financial Officer
J.P. Churilla
Vice President Treasurer

Source: K mart Corp., Troy, Mich., May 1988

K mart Splits Specialty Areas

(Continued from page 1)

port to Joseph Antonini, chairman, president and chief executive officer of K mart.

The other two specialty divisions, Pay Less Drug Stores Northwest, and Waldenbooks, will now report directly to Antonini.

Stevens, who resigned last month to become chairman of Portland, Ore., superstore operator Fred Meyer, had been responsible for all specialty store operations. At a meeting of security analysts in New York City (see story, page 1), Antonini declined to comment on whether the restructuring moves were being planned prior to Stevens' departure. Parkin was placed in charge of the newest specialty divisions "because we want Larry to concentrate on these three major business opportunities [American Fare, Makro and Builders Square] because Waldenbooks and Pay Less Northwest are well operated; their ceos will report directly to my office," said Antonini.

In more restructuring, Richard Miller, formerly senior vp, store operations, has been promoted to executive vp, K mart Stores, to succeed Parkin. Miller will report directly to Antonini and be responsible for all merchandising activity in both the hard goods division and K mart Apparel Corp., store operations and K mart Canada.

Joseph Thomas, executive vp and chief administrative officer, has been given additional responsibilities of corporate facilities. Thomas Watkins, formerly vp, Western region, will succeed Miller as senior vp, store operations, and will now report to Miller. Paul Hueber has been promoted to vp, Western region, succeeding Watkins.

Yellow Front Incorporates Bonanza Stores; Seeks Diversity

(Continued from page 3)

So far, most of the merchandising changes have been gradual at Bonanza. Yellow Front first liquidated much of the old merchandise and then slowly brought in Yellow Front merchandise, Lee said.

New fixtures were put in place at the former Bonanza locations, and Yellow Front is using the stores to test a new distribution system in some hard lines categories.

Although Yellow Front has a large distribution center in Phoenix, the chain is using distributors for paint, garden, electrical, plumbing and hardware. If the utilization of regional vendor expertise improves the mix and movement in those hard lines categories, the chain may borrow successful strategies from this approach to help its own buyers service the remaining stores.

For years, Yellow Front has been known primarily as a small town discounter specializing in Levi's jeans and hunting, fishing and camping equipment. While the Bonanza stores fit neatly into this formula, it also provides the Yellow Front chain with the opportunity to expand its merchandise mix and compete better in metropolitan markets like Phoenix.

Yellow Front is "a profitable company that just needs to change with the times," said Lee. Sales in 1987 hit $149 million and are expected to reach about $220 million in 1988.

Lee and majority financier Kenmare, New York, acquired Yellow Front from Lucky Stores last year, when the predominately grocery company divested all of its non-foods operations.

Since then, Lee has been fine tuning Yellow Front's merchandising and operations strategies. One of his key moves has been to bring in more special deals, or closeout merchandise.

Lee said the chain is large enough to take advantage of manufacturer specials, while also small enough to be able to act quickly and move on deals too small for larger retailers.

To promote this expanded approach, Yellow Front is increasing its advertising budget this year to $6.5 million, compared with $4.3 million spent in 1987, Lee said.

The chain has started a new radio campaign that Lee said, "sort of makes fun of us," by playing on the past image while introducing its new emphasis on closeout merchandise. Through this approach, Lee said he hopes to attract a broader consumer base, including customers who might otherwise shop at department stores.

However, Lee insisted that Yellow Front is not abandoning its core shoppers and is not bringing in the type of closeout merchandise sold by closeout specialists. He said Yellow Fronts' specials are on larger items that are a "more directed purchase."

In addition to updating Yellow Front, Lee said the company is also moving into diversification. Recently, the company opened its second Craft Fair, an upscale craft store that includes special touches like British antiques.

"The approach to the marketplace is genuinely different than what other people are doing," Lee said of Craft Fair. The 12,000-square-foot to 13,000-square-foot stores include craft items, glass cutting supplies and craft classes.

Lee said Yellow Front ventured into this market because it wanted to go after a totally different customer base from its discount stores. A third store was due to open late last month or in early May and Lee said he is presently seeking two additional sites. The company plans to open 10 craft stores next year.

Yellow Front is also currently looking to acquire an off-price apparel chain, but Lee said the deal is currently under negotiation and he can't divulge any details.

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Auto Buyers Cast Wary Eye on Antifreeze Shortage, Price Rise

(Continued from page 1)

ers find they can fetch a higher price for their ethylene from producers of paper, glass, detergents, plastic pipe and soft-drink bottles than from antifreeze makers. Accordingly, they are diverting scarce supplies to more profitable uses and raising the price to antifreeze makers, said Neil McStay, product manager for Xerex, now a unit of BASF.

Effective April 18, Xerex increased its price 40 cents a gallon to $4.49, on top of a 50 cent increase in January.

In January, Prestone increased its price by 60 cents a gallon to a base price of $5.84.

Texaco raised its price 34 cents more a gallon, effective May 1, to $3.99. That's $1.10 higher than it was a year ago. By fall, the price will be $1.75 a gallon higher than a year earlier, predicted Jack Glidden, special products manager for Texaco in Houston.

Last month, buyers attempting to beat the May 1 increase swamped Texaco with a flood of new orders, Glidden said. In response, it rationed buyers to 100 percent of last year's orders, he said.

Shell Oil raised the price of its Shellgard freeze 20 cents a gallon, effective April 25, to $3.80, a spokesman said. On Feb. 15, it had raised the price 25 cents a gallon to $3.60. A year ago, its posted base price was $2.69. Shell plans no rationing, the spokesman said.

"The market is tight and predicted to get tighter," said Court Kirkley, brand manager for Prestone.

Although Prestone plans no further increases, it won't give much advance notice if it does raise prices, he warned.

Despite increases at wholesale, consumers still might be able to buy Prestone in the $4 range, Kirkley said, thanks to discounts from base price and loss leader merchandising.

Peak, a brand now owned by Old World Trading, increased its price by 30 cents a gallon, effective May 1, to $3.94 and served notice that its 50 cents a gallon discount could be pulled without notice. And on June 1, Peak will rescind half of that discount and cancel the remaining 25 cents July 1. On March 4, Peak had raised its price, also by 30 cents, to $3.64 from $3.34 set Jan. 1. At presstime, Peak was considering a sales control program to limit or reject orders, said Steve Warrenfeltz, senior vice president.

McStay said he expects no shortage of Xerex to develop, but tight supplies are limiting plans to gain market share.

Northern Automotive, a Phoenix, Ariz.-based combine of 820 stores operating under six chain names, has negotiated prices that will hold steady until fall, said Ben Parsons, senior buyer.

Even though he expects no shortage of supplies, Parsons expects to be paying more this fall. "I'm going to be leaning harder on them for rebates, though," he said, and predicted that "consumers will be seeing higher prices at retail.

Prices of motor oils also are going up because oil companies have to pay more for their plastic bottles, Parsons said.

Producers of private labels, who must source their ethylene glycol, might be hurt as producers of brand labels keep supplies for themselves, speculated a buyer for a major Southeastern chain. Requesting anonymity, the buyer said, "we have to wait and see. We're not loading up on it."

Tim Crager, automotives buyer for Heck's, Nitro, W.Va., also is sitting pat on his inventory, even though he acknowledged that he doesn't "know how it's going to shake out." Although he "sort of believes" industry warnings about possible shortages," Crager said "I'm going to let it ride. We've got enough stock to last through summer. I'll worry about it next August.

"I'm not trying to create a shortage" by buying to beat price increases or warnings of tight supplies, he said.

Said a buyer for a Northeast chain, "I don't want to even hear about antifreeze. Prices are going crazy. I'm in a quandary. I don't know what to do." The buyer, who asked to remain anonymous, said he is putting together a comparison of various vendor's pricing and willingness to commit themselves. "Everybody is getting close to Prestone" in price, he said.

As for retail, "I'm not going to be the first on the block to raise prices. That would be the kiss of death."

Sears to Battle CE Specialty Chains

(Continued from page 1)

to $179.5 million from $287.9 million a year ago, sales rose 16 percent to a record $12.16 billion. Sears, Roebuck & Co. chairman and ceo, Edward A. Brennan, noted that the company's profits decline is not an indicator of its 1988 results. Income for first quarter 1987 rose a record 47 percent.

A company spokesman told *DSN* that Sears decided to convert the retailer's traditional appliance and consumer electronics departments into superstores "to maintain our position as a premier marketer of appliances and home electronics and to present the customer with a wide variety of choices."

The superstore program will be implemented in three phases: first, Sears will install the superstore departments in select markets and refine the program; second, the retailer will expand the concept throughout the chain; and third, it will open freestanding units. The spokesman gave no timetable for this process. He also declined to name the specific name brands to appear in the superstores.

Sears already offers consumers Sears brand CE equipment plus Sony, RCA, Pioneer and Magnavox products but only Kenmore home appliances.

The superstore departments will be expanded by more than 50 percent of their current size, with existing floor space being rearranged so as to utilize "used selling space" contained in the stores' storage and warehouse areas.

Sears, with 813 stores at year-end 1987, will add 39 new or relocated stores including 24 smaller market concept stores in 1988. Between 1989 and 1992, the retail giant plans to open 85 department stores and 147 smaller stores for a total of 1,050 units.

The retailer currently has two store formats: the full-size or mall store, with at least 100,000 square feet of selling space; and the smaller—up to 100,000 square feet—market-driven stores that feature merchandise specifically focused on a particular market.

Like its competitor, Montgomery Ward, which is transforming itself into a specialty retailer, Sears is likely to intensify its move into the specialty arena.

So far this year, Sears has opened two Sleep Shops in Miami in February and announced plans to open a Chicago neighborhood apparel and home fashion shop and a home fashions store in New York City. Both concepts are experimental.

The two Sears Sleep Shop locations offer bedding under the Sears name plus Sealy, Simmons and Spring Air in addition to sleep sofas and headboards in units of between 4,000 square feet to 5,000 square feet.

The neighborhood store in Chicago will open sometime this summer or fall in a 59,000-square-foot location. The target customer is the apartment dweller, about the same as for the home fashion unit opening in Manhattan this summer.

Antonini's K mart Vision: Be Most Efficient Retailer

(Continued from page 1)

year will assign, or centrally merchandise, more than $5 billion worth of goods, up from less than $2 billion in 1986. By early next year, all advertised and seasonal merchandise in the hard goods area will be centrally merchandised.

On Feb. 1, K mart placed its small appliances department on a centralized merchandising system. Since full implementation of the program in late February, small appliance sales were up 33 percent and gross margin rose 2 points in the eight-week period.

Next year, as much as 75 percent of all merchandise sold in K mart stores will be centrally merchandised.

Antonini reported that the first 244,000-square-foot American Fare hypermarket, to open in Atlanta late this year or early in 1989, will be followed by four other units in the 120,000- to 160,000-square-foot range by 1990.

Makro, K mart's recently-acquired warehouse club operation, will be expanded rapidly from its current five stores, while "simultaneously instituting a serious reorientation of the general merchandise part of the business.

"We also see groceries playing an important part in our mix in K mart stores in the near future," said Antonini, revealing how the chain's discount stores might benefit from Makro's food expertise.

Antonini's "vision" calls for the addition of more and larger stores to K mart's real estate portfolio. In 1988 and 1989, K mart will enlarge 100 small- to medium-size stores, and at least 100 new K mart stores, most of which will be full-size units, will be opened.

Tons of Toys Attacks Small Markets

(Continued from page 3)

stores need only produce about $1.4 million in sales per year to be profitable, compared to the $4 million to $6 million annual volume needed to reach break even by the 36,000-square-foot to 42,000-square-foot stores operated by other toy supermarkets.

Tons of Toys' greatest benefit to its customers is the convenience it offers, Ferretti said. In most of these "markets of opportunity," as he calls them, consumers would have to travel anywhere from 20 to 50 miles to get to the next closest toy supermarket. In Rockland, Maine, for example, the closest toy supermarket is 80 miles away from the Tons of Toys store.

Ferretti is less concerned about the discount department stores situated near his stores. In Rockland, both Zayre and Ames are located near his store.

"It is well documented that the mass merchandisers are losing market share," Ferretti said. "The toy retailing business [specialty stores] has dramatically grown to a 40 percent market share of a $13 billion industry."

In merchandise mix, Tons of Toys stays similarly stocked to other toy giants—"like a baby Toys "R" Us," said Ferretti. It does not offer baby food, clothing or diapers as do most toy giants. Nor does it carry secondary brands or imported toys.

Its product line stays strictly within the confines of name brand products. Each store averages about 8,000 sku's.

Discounter Sales Rise 11.1% in Jan.

(Continued from page 3)

three to five years after enough selling seasons have been recorded to develop the seasonal adjustor.

The just-released January 1988 Census report culminates one complete year of discount department store sales data and allows for year-to-year comparison for the first time.

The Census Bureau only started breaking out sales for discounters in January 1987. Until then, sales for discount department stores were recorded within—and not broken out separately—the department store report.

However, the Census Report takes a narrower view of the type of store that constitutes a discount department store, resulting in figures that are slightly lower than those generally accepted by the industry.

For example, *DSN*'s Census Report on the Discount Industry estimated that 1987 discount department store sales hit $84.9 billion. However, many industry followers say the figures are a good reflection of business conditions.

In the government report, discount department store retailers recorded $68.2 billion in sales in 1987, revised up 0.04 percent from an earlier report. These sales reflect an average of of 45 percent of total department store sales, a division within the general merchandise category.

Department store sales, including leased departments, totaled an unadjusted $9 billion in January, up 5.2 percent from January 1987. Sales were off 62.6 percent from December's sales high of $10.5 billion.

Sales for the entire general merchandise group, of which discount department stores are a subgroup, totaled $10.3 billion, up 4.1 percent from the same time a year ago. Sales were off 63.4 percent from December. For all of 1987, sales totaled $175.9 billion, unadjusted.

Retail sales for the nation totaled $113.6 billion in January, up 7.5 percent from the same month in 1986. Excluding automobiles, sales rose 3.4 percent, to $88.7 billion, according to the Census Bureau.

Total retail sales for 1987 were $1.5 trillion. Excluding automobiles, sales were an unadjusted $1.18 trillion.

Makro Enters Cleveland Market

(Continued from page 3)

frames, speeds the action and allows more merchandise to be shown in the 30-second spot. A voice track added to the film invited viewers to Makro's grand opening and told them about the store. Makro stores are not open to the general public except during grand opening events.

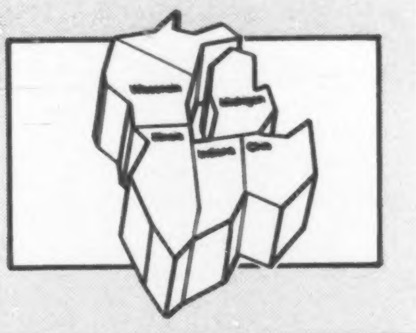
The Cleveland unit is the first store opened by the four-unit membership club chain since K mart bought a majority interest in March.

Compared to other wholesale clubs, like Price Club and Sam's, Makro carries a much wider selection of merchandise—some 20,000 to 30,000 sku's vs. just about 4,000 sku's at most other clubs. It stocks a wider selection of grocery items, sells fresh meat and operates under a business-member-only philosophy. Individual units average about $75 million in annual volume.

K mart said it plans to expand the club to about 20 units by 1990.

IMRA
ANNUAL CONVENTION
1988

Regional Analysis:
East North Central
Ohio • Indiana • Illinois
Michigan • Wisconsin



Going for a Bigger Piece of the Pie

When discounters define their customers, the image of a woman aged 25 to 44 comes into focus. And when they think of where she lives, the words describe a community in "Middle America."

It is here in Ohio, Michigan, Illinois, Indiana and Wisconsin—the East North Central region—where 55 separate discount store retailers operate more than 1,700 stores all vying for a share of the retail pie.

Middle America, however, consists of wide economic diversity. The five-state region includes: communities that are still recovering from the 1981-1982 recession; towns and cities that continue to suffer feast or famine times due almost exclusively to automobile production; and vibrant local economies such as Chicago, the financial capital, the southwestern Ohio cities of Dayton, Cincinnati and Columbus, and Indianapolis.

Expansion of Service Economy

The year-long expansion of the region's service economy combined with a revival in a broad range of durable goods manufacturing is expected to continue through 1989, outpacing the growth throughout the rest of the country, many economists project.

But even with such industries as paper, plastic, steel, furniture, farm equipment and chemicals reviving after years of decline, a slowing of automobile production and related auto parts manufacturing still mar the region's economy and cast a pall over the bright spots.

For example, the Chrysler plant in Kenosha, Wis., is expected to close soon, idling between 2,000 and 3,000 auto workers. That plant closing will probably affect an additional 2,000 to 3,000 workers employed in auto parts production elsewhere in the region, said Stan Duobins, director of regional forecasting for the WEFA Group, Bala Cynwyd, Pa., an economics reporting service.

But the manufacturing sectors that are reviving constitute a wealth of good news for discounters in the East North Central region, because the news represents large numbers of previously idled workers who will return to the payroll and ultimately, their stores.

It is "logical," said Duobins, that these previously idled workers will stimulate retail sales, especially among discounters whose profile customer closely matches these blue collar workers. And after long purchase delays, these customers are likely to make big-ticket purchases.

Discounters are ready for the activity. Many are already reinforcing their positions in these states.

For example, Sears is opening its new neighborhood store in Chicago this summer; Hills has announced it will open six new stores here this year, five in Ohio and one in Indiana; Bigg's is adding its second hypermarket in Cincinnati plus its first grocery-only store; and Quality Stores, North Muskegon, Mich., will add eight new Quality Farm & Fleet stores, all of which are located in this area; and K mart debuted its new apparel format for its mid-size stores in Lima and Piqua, Ohio, last year.

Other discounters who have already announced expansion plans for this area include: Wal-Mart, which is adding at least five stores here this year, three in Ohio and two in Indiana; Meijer, with two new stores slated for Ohio; Murphy's Mart, one in Ohio; Fisher's Big Wheel, one in Ohio; Harts, two in Ohio; ShopKo, one in Wisconsin; and Makro, which just opened its second Ohio unit, in Cleveland, earlier this month.

The region is home to 23 discounters, including the nation's largest, K mart, headquartered in Troy, Mich., and operating 471 stores here.

Other discounters based in this region include:

- Meijer, Grand Rapids, Mich., with 48 stores in the five-state area;
- Gold Circle, Worthington, Ohio, 32 units;
- ShopKo, Green Bay, Wis., 34 units;
- Makro, 2 stores;
- Value City, 23 locations;
- Harts, Columbus, Ohio, 28 units;
- The Wholesale Club, Indianapolis, 5 stores;
- Quality Stores, 47 operations;
- Prange Way, Green Bay, Wis., 20 locations.

Among the region's specialty store retailers headquartered here are Highland, Consolidated Stores, Fretter, Audio-Video Associates, Nationwise, Whitlock, Auto Works, Sportmart and Luskin's.

Discounters obviously have faith in this area of the country, as well they should.

Of the $84.9 billion in sales tallied last year at discount stores across the country, stores in the East North Central region garnered 18.6 percent of the total, or $15.7 billion, a 2.3 percent gain over discount sales totals for 1986, according to Richard Mount, president of Mount Economic Consulting of Middletown, N.J.

This year discount store sales in the region are projected to total $16.25 billion, a 3.1 percent increase over 1987, a growth rate that outpaces the nation as a whole. Next year, discount store sales are projected to rise 3.3 percent over the projected 1988 level, to $16.79 billion, Mount said.

The East North Central region includes only five states but has 17.3 percent of the nation's total population, more than any other region in the country. And these residents are among the youngest in the nation.

According to *Sales & Marketing Management*'s 1987 report—which is based on 1986 data, the most recent available—the median age of the people in the East North Central states was just 31.9 years old, compared to the nation's 32.2 years. The population is split almost equally between people aged 0 to 17 and 50 and over.

The region's 17.25 million households have a median household income of $25,579, higher than the nation's $24,632, according to *S&MM*.

The total population in this region, according to the U.S. Commerce Department, grew by only 0.5 percent between 1980 and 1987, to 41.68 million people. That total represents 70.4 percent of the total population in all of the Midwest, which also includes the states of Minnesota, Nebraska, North and South Dakota, Iowa, Kansas and Missouri.

The largest population gain was recorded in Wisconsin, up 2.1 percent to 4.8 million people. The other states had fairly stable population numbers.

In March, nearly 30.6 million civilians were employed in the five-state region, with an unemployment rate of 7.5 percent, the highest in the nation, after the 8.5 percent unemployment rate in the West South Central states. The rate was down from 7.9 percent in March 1987.

Last year, the unemployment rate in the five-state region was 7.2 percent, compared to 7.9 percent in 1986. Michigan, the second most populous state in the region, had the highest unemployment rate, 8.2 percent, down from 8.8 percent in 1986.

Philip A. Cummins of the Federal Reserve Bank of Chicago, expects income and employment to expand sharply in the Midwest this year in response to declining imports, rising exports, a strong farm sector and a surge in capital spending by manufacturers.

Economic Perspectives, Delaware, Ohio, a market research and management consulting firm, projects the East North Central region will record a 7 percent rise in per capita income between 1988 and 1992, a 2 percent employment gain, and a 5.5 percent increase in retail sales.

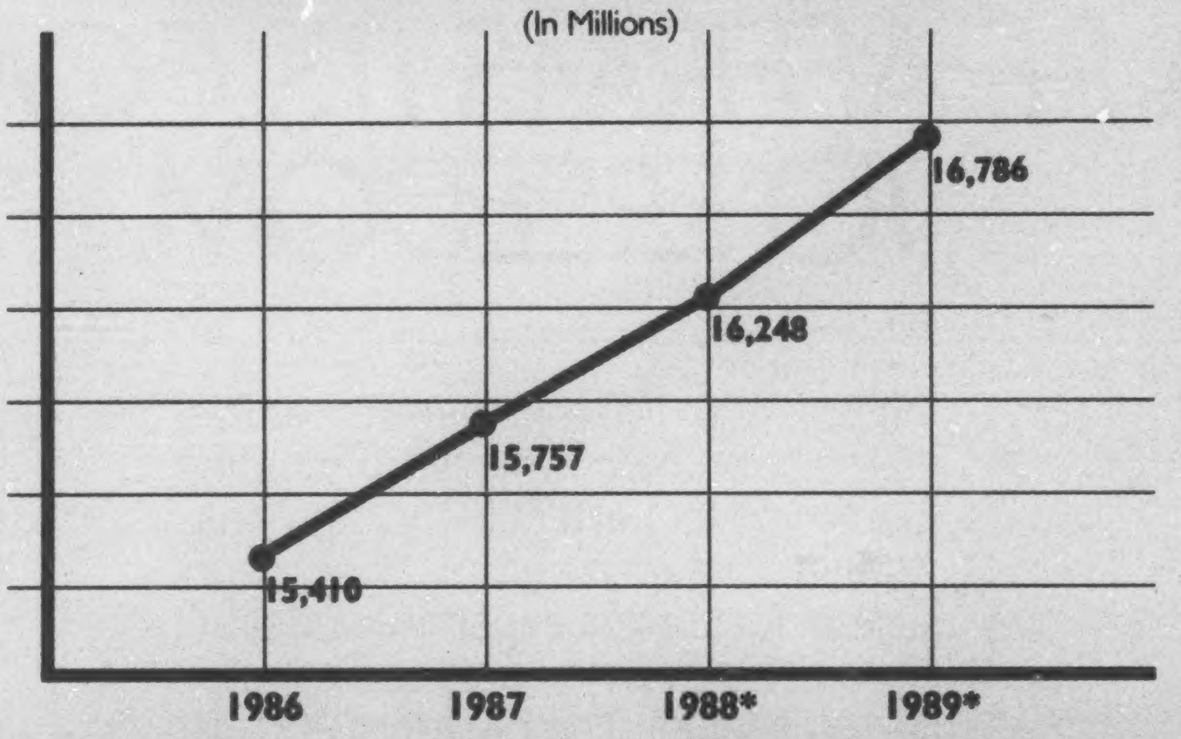
East North Central Snapshot

The East North Central states had been weak because of the softness in capital spending and domestic manufacturing. These sectors are recovering now with the fall in the dollar and the region should be among the fastest growing through 1989.

Michigan will be weak during this period because of its concentration in the auto industry. Illinois lags the regional average because of its farm sector in the southern half of the state.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Illinois	2.0%	8.2%
Indiana	4.3	6.4
Michigan	0.4	8.9
Ohio	2.5	7.1
Wisconsin	3.4	7.5
Total:	2.3	7.6

East North Central Discount Store Sales
(In Millions)



*projected

Source: DSN, Mount Economic Consulting

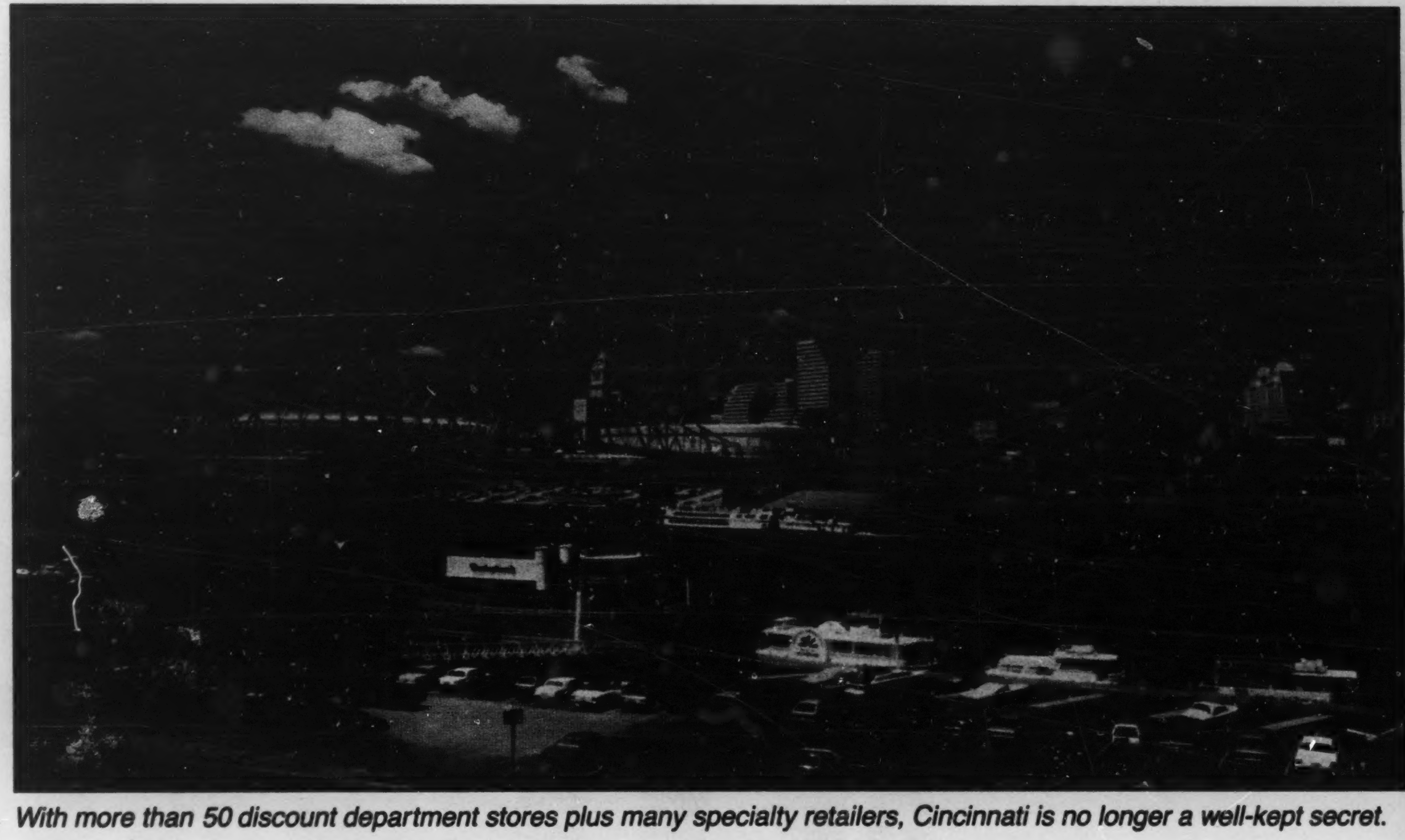
East North Central Region: Discount Store Count

Chain	Stores
K mart	471
Dollar General	203
Family Dollar	135
Zayre	84
Wal-Mart	84
Fisher's Big Wheel	65
Service Merchandise	55
Target	54
Hills	54
Meijer	48
Quality Stores	47
Venture	43
Murphy's Mart	37
ShopKo	34
Gold Circle	32
Harts	28
Value City	23
Pamida	22
Heck's	22
Prange Way	20
3D	18
Val Corp	11
Conley's	10
Polk Brothers	10
Others	163
Total	**1,773**

Source: DSN research

Cincinnati:

Many Discounters Say It's a 'Blue Chip' Investment



With more than 50 discount department stores plus many specialty retailers, Cincinnati is no longer a well-kept secret.

CINCINNATI — The locals have nicknamed Cincinnati "The Blue Chip City" for its quality of life, but the label may more accurately describe the city's business climate, particularly its retail trade.

Discount store retailers apparently think Cincinnati is a "blue chip" investment, since the industry has outfitted the city and surrounding suburbs with more than 50 discount department stores plus a broad selection of specialty retailers.

For a population of just 1.6 million in an eight-county area covering 2,620 square miles in three states—Ohio, Indiana and Kentucky—Cincinnati is probably a city that is as close to being overstored as a city can get. But that hasn't slowed the pace any.

K mart has about 15 locations here; Gold Circle, six; Zayre, nine; locally-based Swallen's and Van Leunen's, nine and seven, respectively; and Wal-Mart, one. Makro, which is headquartered here and operates membership warehouse clubs in this market, will expand the five-unit company from this city.

Price Savers Wholesale Warehouse Club, which is owned by locally-based Kroger, a food retailer, will add two units here this summer for a total of three. Biggs, also based here, operating the city's lone hypermarket, has one more hypermarket on the way plus its first grocery-only location now under construction.

Other Discounters in the Market

Marshalls, Service Merchandise, Toys "R" Us, Children's Palace, T.J. Maxx, Value City and a host of others also have multiple locations here.

The city, according to local observers, is no longer a well-kept secret.

"I don't know what it is, but it [Cincinnati] is a hot bed people come to," observed Stan Johnson, president of Van Leunen's, based here since 1954.

Van Leunen's has contributed substantial excitement to the local retail scene. In recent years the seven-unit discounter has spun off two specialty store operations: seven-unit All About Sports and six-unit Pets and Such. Another specialty operation is "a possibility," Johnson said. "Cincinnati," he added, "is a city of great opportunity."

Located on the Ohio River in southwestern Ohio, the Cincinnati metropolitan area has a diverse economy. It is so diverse, in fact, that regardless of what people buy throughout the nation, Cincinnati claims to have made some part of the finished item.

Cincinnati: Discount Store Count

Chain	Stores
K mart	15
Zayre	9
Swallen's	9
Van Leunen's	7
Gold Circle	6
Value City	3
Murphy's Mart	3
Biggs	1
Price Savers	1
Wal-Mart	1
Harts	1
Makro	1
Total:	57

Source: DSN research

Cincinnati has a labor force of 677,100 people, 19 percent of which are employed in the retail sector. The unemployment rate was 5.9 percent in 1987 compared to 7 percent for all of Ohio.

Cincinnati is home to 13 of the nation's Fortune 500 companies, including General Electric Aircraft Engine and Procter & Gamble, the city's top two employers.

Described locally as a "conservative" city, Cincinnati also is a fairly young and prosperous community. The median age is 31.5 years; average household income is $33,116; and the cost of a median-priced home is $80,900, according to the most recent statistics available from the Greater Cincinnati Chamber of Commerce.

Department store sales for the area rose 4.3 percent last year, to $1.192 billion from $1.143 billion in 1986. Based on sales percentages of national discount department stores, which accounted for 45 percent of department store sales in 1987, discounters tallied about $536 million in 1987, up from $514 million in 1986, according to the Census Bureau's "1987 Monthly Retail Trade Report."

A Cincinnati shopper profile based on the Census Bureau's "1985 Diary Survey" of average weekly expenditures revealed that:

- 62 percent of Cincinnatians own their own home, 19 percent without a mortgage;
- 56 percent are high school graduates, and 38 percent finished college; and
- 85 percent own at least one vehicle.

These same consumers, who averaged 45 years of age, spent:

- $1,125 on apparel, nearly one-third of which was spent on women's and girls' fashions;
- $744 a year on household furnishings and equipment, including furniture and appliances;
- $55.77 a week on food;
- $20 a year on jewelry and watches;
- $14 a year on small appliances and miscellaneous housewares.

"We're a steady, dependable, high-quality kind of a city," said Roger Ruhl, vice president,communications of the Chamber of Commerce. "We're not a boom or a bust city. We have no high-highs, or low-lows. We're the kind of place where people wear navy blue pin-striped suits and white shirts."

More than 30 new companies located or relocated their business in Cincinnati last year, and over 120 local businesses expanded their operations in this metropolitan area, including Delta Air Lines.

Greater
Cincinnati
It's Blue Chip SM

Cincinnati also has successfully absorbed the 4,200 people who were laid off when a local General Motors auto assembly plant closed recently. Chamber of Commerce officials also expect the community to be able to do the same if GM follows through on its threat to idle another 2,000 workers at another plant, said Ruhl.

Chamber of Commerce officials also expect that if locally based Federated Department Stores, recently bought by the Campeau Group of Canada, is streamlined, the city will be able to handle that setback, too, albeit unhappily. Federated employs 530 people at its headquarters facility.

At the same time, retail shopping areas in the area are expanding, and discounters are participating in the growth.

In the last few years, nearly all the discounters operating in the city have added stores to this market, attracted by the area's demographics.

"Cincinnati should be an exceptional market for us because of its demographics," said Phil Sutterfield, vice president of merchandising at Price Savers Wholesale Warehouse Club. "It has the right population." Even after Price Savers opens its two new units this summer, Sutterfield said there will still be room for additional stores here.

Van Leunen's plans to expand its All About Sports chain in the Cincinnati market, growing to about 20 to 25 stores within a 150-mile radius of the city, said Johnson. These growth plans and others should conform well to the area's shopping habits.

According to a 1986-'87 consumer shopping prospectus conducted by the *Cincinnati Enquirer*, the local newspaper, discount stores are a very popular place to shop. In fact, of 12 department stores mentioned as places people shop most often, seven were discounters and K mart was the No. 1 choice.

K mart also topped the list as the discount department store shopped most often by the 1,404 survey respondents, a shopping pattern Jerry Silvers, the *Enquirer*'s research director, doesn't think has changed since the survey was taken. Another market study is planned for spring 1989, he remarked.

These results in no way are indicative of retail sales activity, Silvers explained.

K mart was also listed as shoppers' favorite discount store, followed by Gold Circle, Meijer—which has since withdrawn from the market—Van Leunen's, Value City, Swallen's and Zayre.

When it comes to variety and selection and best value for the money, consumers rated K mart at the top of those lists, too, followed by Gold Circle in second place. Swallen's came in third, followed by Meijer, Van Leunen's, Bigg's, Value City, Service Merchandise and Zayre.

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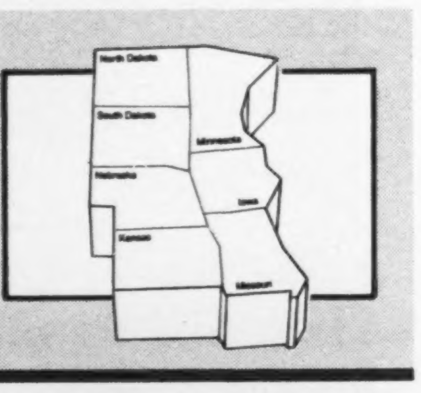
1988

Regional Analysis:
West North Central
Minnesota • Iowa • Missouri • North Dakota
South Dakota • Nebraska • Kansas



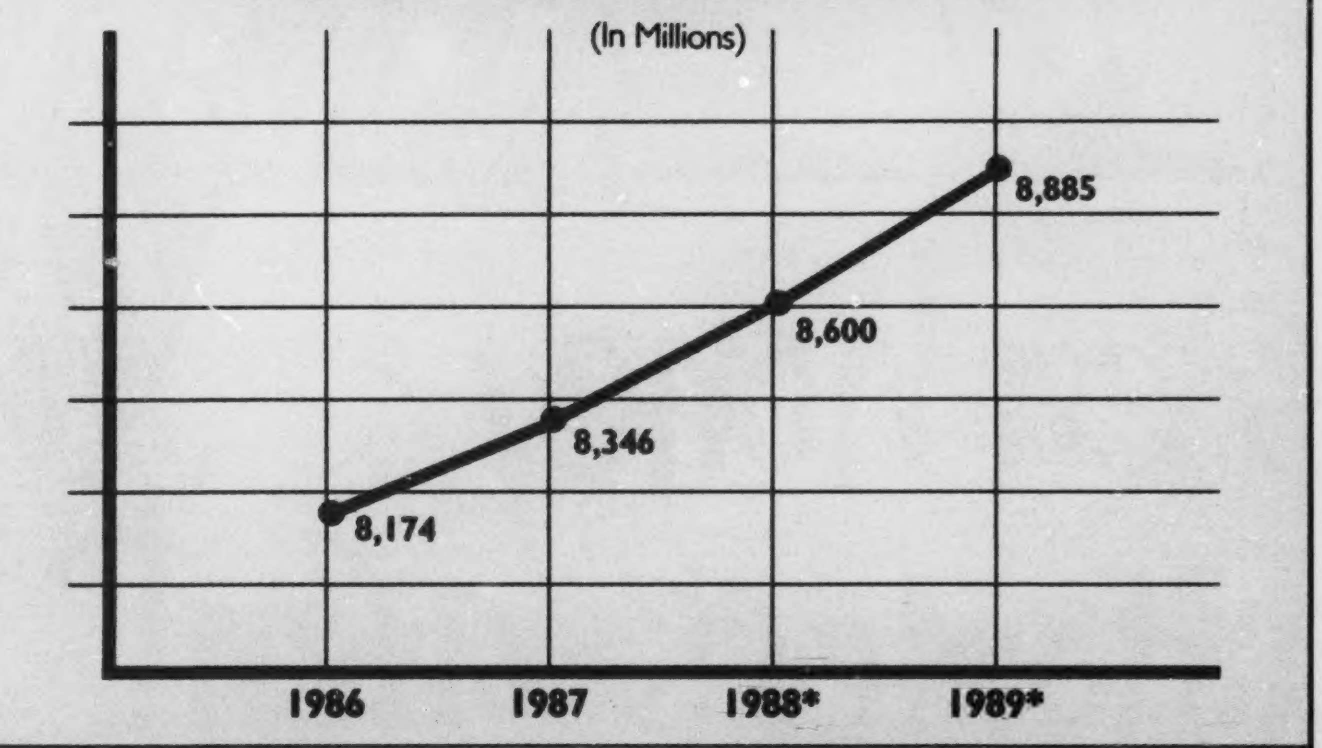
Turnaround Predicted in Heartland

West North Central Snapshot

The agricultural sections of the West North Central states are beginning to recover now, not so much from higher prices as from government programs. Missouri, with its concentration in auto assembly plants, may be the laggard this year and next. Minnesota enjoys a high-tech sector that should strengthen throughout this period.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Iowa	4.2%	6.5%
Kansas	2.5	5.5
Minnesota	3.3	5.5
Missouri	1.9	6.1
Nebraska	2.1	4.9
North Dakota	2.0	6.4
South Dakota	1.3	4.2
Total:	2.7	5.6

West North Central Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

West North Central Region: Discount Store Count

Chain	Stores
K mart	199
Wal-Mart	168
Pamida	108
Dollar General	90
Target	58
ALCO	57
ShopKo	30
Gibson's	27
Venture	24
Best Products	20
Chaffin's	17
Service Merchandise	11
Sam's Wholesale Club	8
Sam's Discount/ Save Mart	8
Jack's Discount	7
Stockton's	7
Grandpa Pidgeon's	5
Home of Economy	5
The Wholesale Club	4
Holiday Plus	4
Price Savers	2
Zayre	1
Hypermart USA	1
Stein Mart	1
PACE	1
Ace Mart	1
K's Merchandise	1
Smith's Discount	1
Red-X General	1
Skagway	1
Total	**868**

Source: DSN research

The country's rural heartland economy, though still recovering from the Great Farm Depression of the '80s, is on the verge of a turnaround, thus presenting discounters with possible growth opportunities going forward.

Yet while there is unquestionably some light at the end of the depressed economic tunnel for the West North Central states, this region of the country, very much dependent on agriculture and manufacturing, remains a trouble spot when compared with most other regions.

The U.S. Census Bureau and other agencies define the West North Central region as consisting of Iowa, Kansas, Minnesota, Missouri, Nebraska and North and South Dakota, a seven-state grouping that represents 7.4 percent of the total population of the United States.

Farms, Manufacturing Reviving

In addition to the farm economy showing some signs of revival (principally due to government subsidies, according to economists and analysts), a rise in exports due to the declining value of the dollar has spurred manufacturing job and output growth throughout the region.

For the nation in February, there was a 1.5 percent increase in manufacturing jobs over February 1987. However, during that same month, Iowa was up 7.3 percent, Nebraska saw a 7.1 percent rise, South Dakota was up 5.8 percent, North Dakota rose 4.6 percent, Minnesota was up 3.7 percent, Kansas rose 3.1 percent and Missouri increased 1.2 percent.

However, total retail sales in January (the most recent month available from the U.S. Department of Commerce) were up 7.6 percent for the entire country, while the West North Central states rose by just 6.7 percent, below the national average.

Slight Decline in Population

Population in the region declined last year by 1.4 percent from 1986 levels. Total population for the region in 1987 was 17.6 million, compared to 17.9 million in 1986. The most populous state, Missouri, is home to 5.1 million people, with Minnesota next at 4.3 million. The remaining states, in descending order, are Iowa, 2.8 million; Kansas, 2.5 million; Nebraska, 1.6 million; South Dakota, 709,000; and North Dakota, 672,000.

Effective Buying Income

While the region represents 7.4 percent of the total U.S. population, it represents a bit less—7.1 percent—of effective buying income.

Discount store sales for the region hit $8.35 billion last year, which represents a 2.1 percent increase over 1986. That was slower growth than 1985 to 1986, which saw a 2.6 percent rise.

However, according to forecasts released by Richard Mount, president of Mount Economic Consulting, Middletown, N.J., exclusively for *DSN*, discount store sales for the region will hit $8.6 billion this year, a 3.0 percent jump. Mount predicts discount sales growing even faster in the following year, with an increase over 1988 of 3.3 percent expected.

However, Mount said the figures might be deceiving. "This is one of the weakest regions right now, so it will be showing healthy gains because it has more of a way to go," said Mount.

The region is home to six of *DSN*'s top 100 discount chains, including Target, Minneapolis; Venture, O'Fallon, Mo.; Western Auto, St. Louis; Pamida, Omaha, Neb.; and Best Buy, also Minneapolis.

Dominating the region, however, in terms of store count, are K mart, Wal-Mart, Dollar General and ALCO, in addition to Pamida and Target.

> ***Even though the West North Central region as a whole has been depressed up until very recently, there have been several bright spots. Hot growth cities—based on job generation, rate of new business start-ups and young companies with high growth rates—include Minneapolis/ St. Paul and Topeka and Wichita, Kan.***

Even though the region as a whole has been depressed up until very recently, there have been several bright spots. Hot growth cities in the region—based on job generation, rate of new business start-ups and young companies based there with high growth rates—include Minneapolis/St. Paul, Minn., and Topeka and Wichita, Kan.

In fact, Bentonville, Ark.-based Wal-Mart opened its second Hypermart USA in Topeka earlier this year and unveiled a Wal-Mart SuperCenter (essentially a hypermarket without the attached specialty shops and services) in Washington, Mo.

And, the nation's second largest discounter will be opening yet another Hypermart USA in Ferguson, Mo., which is just outside of St. Louis. Wal-Mart is also planning to open three Sam's Wholesale Clubs in St. Louis, as well as one in Lenexa, Kansas.

Other discounters that have announced openings in the region for the year include Abilene, Kan.-based ALCO and Grandpa Pidgeon's, a regional chain based in St. Louis.

At 199, K mart operates the most units of any discounter in the region.

Yet Robert Hayes, chief economist at Troy, Mich.-based K mart Corp., called the West North Central "not a good expansion region."

However, he added that a six-year pent-up purchasing demand coming off the farm depression might break in 1989 or 1990 as faith in stabilizing farm prices takes hold.

Frank Schlosser, president and chief operating officer at Pamida, said, "It's [the region] a negative growth area right now." But he added that "the farm economy is improving."

Omaha, Neb.-based Pamida operates 108 units in the region, making it the third largest general merchandise discounter in the seven state area after K mart and Wal-Mart.

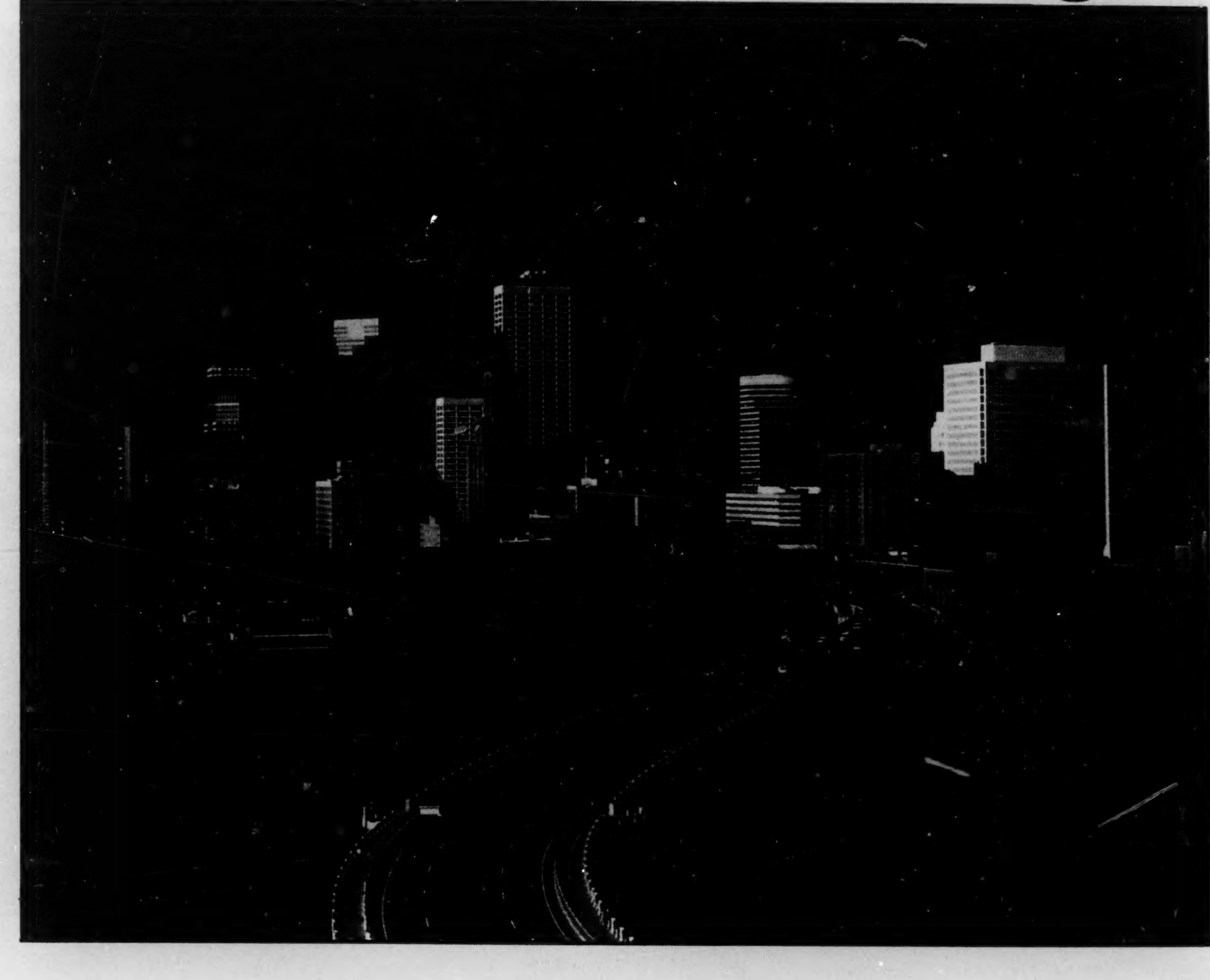
Future population growth for the region, according to U.S. Census Bureau projections, will be moderate through the year 2010. From a projected 17.65 million population for the region by the end of this year, the West North Central will hit 17.72 million in 1990; 17.83 million in 1995; 17.85 million in the year 2000; and 17.91 million in 2010.

The states gaining the most in population from 1980 to 1990 will be Minnesota (up 6.1 percent), Missouri (up 5.6 percent) and Kansas (up 5.4 percent). The big population loser will be Iowa, down 5.3 percent.

In fact, three of the seven West North Central states are being projected to lose population from 1990 to 2000. They are Iowa (down 7.6 percent), North Dakota (off 4.7 percent) and Nebraska (down 2 percent).

Minneapolis/St. Paul:

Twin Cities Shape Up as Retail Battleground



Minneapolis is thriving, with unemployment below the national average and per capita income well above the average.

MINNEAPOLIS — The Twin Cities, the affluent capital of Minnesota and home to Target Stores, is evolving from a regional retail market into an open, national market.

With a robust local economy that is spurring a large increase in retail space, Minneapolis/St. Paul is shaping up as a major retail battleground.

Unlike much of the West North Central region, greater Minneapolis is thriving, with unemployment below the national average and per capita income well above the national average.

"This is an innovative and competitive retail market," said Richard Cardozo, professor of marketing at the University of Minnesota. It promises to be even more competitive in the near future, especially at the upper end of the retail spectrum.

Long dominated by Dayton's, the Twin Cities have either recently added or will soon add Bloomingdale's, Neiman-Marcus, Nordstrom and Saks Fifth Avenue department stores.

It appears Twin Cities consumers can support all the new retail selling space coming on line, both in downtown and in several suburban mall projects currently under development. While Minneapolis ranks as the 13th largest metro area in the United States, with a population of 2.3 million (for greater Minneapolis/St. Paul, 1986), it ranks number nine in the country in general merchandise sales with $2.45 billion in 1986, according to *Sales & Marketing Management* magazine.

"People here buy department store-type merchandise with two fists," said Steve Fox, consulting business editor for *Twin Cities* magazine.

Improving Metro Area

Not surprisingly, then, Minneapolis/St. Paul is an improving metro area, becoming the 34th highest metro area last year compared to 49th in 1986. The ranking (from *Inc.* magazine) takes into account three major factors: job generation, rate of significant new business openings, and the percentage of young companies enjoying high growth rates.

Norstar Banks conducted a survey of over 50 Twin Cities bankers in April, asking them to rate, among other things, the general economy, said Larry Wiph, regional economist at Norstar. As many as 90 percent labeled the economy good to very good, which was "the highest level in the last five years," said Wiph.

"We tend to have shallower dips and lower peaks compared to the rest of the country," Cardozo said.

Asked to predict what the state of the economy will be over the next six months, 80 percent of the bankers said good to very good. Wiph also said that overall retail sales and capital spending "got high marks" from the bankers surveyed.

Minneapolis/St. Paul: Discount Store Count

Chain	Stores
K mart	19
Target	18
Holiday Plus	4
The Wholesale Club	4
Price Savers	2
Total:	**47**

Source: DSN research

In addition to Dayton Hudson, Target's parent, Minneapolis is also home to such Fortune 500 companies as Super Valu Stores, 3M, Honeywell, Pillsbury, General Mills and Control Data.

Minneapolis is dominated by two general merchandise discounters—K mart and Target—with 19 units and 18 units, respectively.

"Even though K mart might have one more unit, Target is dominant in terms of identity and volume," said Neal St. Anthony, a business reporter at the Minneapolis *Star-Tribune*. "Target also has the more upscale image, but K mart is definitely competitive in the market."

St. Anthony added that the locally based Best Buy Superstores, now with 10 stores in the region, has "made a profound impact on Twin Cities retailing." He said that the discount CE chain has more than tripled its square footage in the area over the past four to five years.

Even though Costco just closed its two Minneapolis clubs last month, St. Anthony said "Wholesale clubs, in general, do fine here. I think Costco was never committed to the long term in the Midwest."

The discount segment has become more competitive over the last couple of years, said George Hite, spokesman for Target.

He admitted that Best Buy is now "challenging us in the home electronics segment." He also said that Highland Superstores, another CE chain, and Toys "R" Us have a major presence. Mainstreet, the soft goods specialist, will open its first unit in the area later this year.

Hite said that even though the competition is stiffer, the discounter's "most successful group of regional stores" are the 18 in Minneapolis/St. Paul.

Target, which opened its first unit in Minneapolis in 1962, will open its 19th store in the Twin Cities area in 1989, said Hite. He added that Target has been approached by city officials to add a store downtown, but the retailer has declined.

Indeed, Fox said that downtown is looked upon as "a haven for the rich; that's the image and attitude," and Fox said it's becoming politically embarrassing for Minneapolis city officials, who are making concerted efforts to get discounters downtown.

Sears, JC Penney and Montgomery Ward have at least five units each in the Twin Cities area, according to St. Anthony, but none are downtown. He added that Penney closed its downtown store in 1986. Lack of enough cheap parking—especially since discount shoppers are more sensitive to high-priced parking—and high rents have prevented popular-priced retailers from entering downtown.

Subsidy May Be Possible

But St. Anthony said that the city might be willing to subsidize lower-end retailers in order to get a popular-priced retail presence downtown.

The average downtown Minneapolis worker, according to Fox, spends nearly $1,800 per year on retail purchases in the downtown trade sector. (There are approximately 125,000 workers). Retail sales in downtown alone hit $475 million in 1985.

According to Impact Resources, a consumer data base company, 34.2 percent of Minneapolis/St. Paul discount store shoppers have annual household incomes of $20,000 to $39,999; 16 percent have household incomes of $50,000 and over per year. The average household income is $30,900.

For the purposes of the study, discount store shoppers were defined as listing Target and/or K mart as stores they shopped in for general merchandise, which doesn't rule out having shopped in department stores.

In fact, 19.8 percent of discount store shoppers said they prefered Dayton's for men's apparel. The next most popular choice was Target, with 10.2 percent, followed by Penney, 6.9 percent; Sears, 5.2 percent; and K mart, 4.3 percent.

For women's apparel, Dayton's was No. 1 with 18 percent and Target again was No. 2 with 8.8 percent, followed by K mart, 4.6 percent; Penney, 3.8; and Marshalls, 2.4 percent.

Target topped all comers in children's apparel, with 12 percent of Minneapolis discount store shoppers choosing that retailer over others in that category. Dayton's came in at No. 2, with 5.5 percent, and K mart was No. 3 with 4.4 percent.

In shoes, Dayton's was No. 1 at 9.3 percent; then Payless Shoes at 7.9; Kinney at 5.4; and Target at 5.3 percent.

Store preferences for health and beauty aids among Minneapolis discount store shoppers were: Target, 27.3 percent; Snyder Drug Store, 8.2 percent; and K mart, 5.1 percent.

For TVs and VCRs: Best Buy at 53.8 percent was the most popular, followed by cataloger Best Products at 5.9 percent. Target was 3.7 percent and K mart didn't even make the list.

For stereo equipment: Best Buy, 48.9 percent; Best Products, 5.6 percent; and Target, 2.3 percent.

Home improvement/hardware: Menards Cashway, 11.4 percent; Knox Lumber, 7.9 percent; Sears, 6.4 percent; and Target, 3.1 percent.

Minneapolis discount stores shoppers said they would be purchasing the following items over the next year: furniture (15.6 percent), TVs/VCRs (10.3 percent), home appliances (9.9), and stereo equipment (8.2). The research also showed that 10.1 percent said they buy products by catalog/direct mail "regularly," and 52.8 percent said "occasionally;" just 1.4 percent said they purchase products from TV shopping shows "regularly," with 7.4 percent saying "occasionally."

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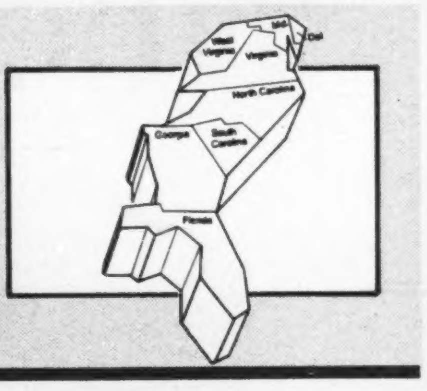
Regional Analysis:
South Atlantic

Delaware • Maryland • Washington D.C. • West Virginia
Virginia • N. Carolina • S. Carolina • Georgia • Florida



Sunny Future in Store for Discounters

Nearly 2,800 retail outlets representing most of the nation's top discount and specialty retailers are located in the South Atlantic, and more are sure to follow.

Discounters are simply following the nation's migration pattern to the sunny South Atlantic, where the cost of living is as moderate as the climate. That migration is expected to continue through the end of this century.

The South Atlantic region is an area with a 1987 projected population of 41.68 million people, or 17 percent of the nation's total population, according to the U.S. Census Bureau.

This region is home base to six of the nation's top 100 discounters: Best Products and Circuit City, Richmond, Va.; Rose's, Henderson, N.C.; Heck's, Nitro, W.Va.; Family Dollar, Charlotte, N.C.; and Brendle's, Elkin, N.C.

And, this is where K mart is building its first hypermarket, American Fare, to open late this year in Stone Mountain, Ga., an Atlanta suburb.

Revival of Manufacturing Sectors

Over the past five years, the region has been strengthening and varying its service base. A revival in the region's textile, apparel, carpeting, paper, chemical and furniture manufacturing sectors has been stimulating numerous local economies.

Increased activity in the manufacturing sector—sparked by the declining value of the dollar, which has raised the cost of imports and stimulated American exports—in concert with the region's expanding service economy is creating heightened demand for all kinds of products, from food to housing and home furnishings.

Among the "hot" markets in this region are Atlanta; Baltimore; Richmond and Norfolk, Va.; the Research Triangle in North Carolina; Jacksonville, Fla.; and the coastal areas of South Carolina.

This growth, particularly among blue collar workers, is expected to swell retail sales, especially at discount stores. This year discount store sales should exceed 1987 levels, according to forecasts conducted exclusively for *DSN* by Richard Mount, president of Mount Economic Consulting, Middletown, N.J.

Discount store sales in the South Atlantic region will rise 3.1 percent in 1988, to $13.53 billion, followed by a 3.4 percent sales increase in 1989, to just under $14 billion. This projected increase will place the South Atlantic region on a growth pattern that is exceeded only by the East South Central and the Pacific regions.

The South Atlantic is, quite frankly, "one of the fastest growing [regions in the country] and will continue to be," asserted Mark Zandi, director of regional forecasting for the WEFA Group, Bala Cynwyd, Pa., an economics reporting service.

The region's population grew by 12.8 percent between the 1980 census and last year, according to the U.S. Commerce Department.

The most populous state in the region is Florida, which is also the fourth most populous state in the nation behind California, New York and Texas. Florida had 12 million residents last year, an increase of 23.4 percent between 1980 and 1987, outpacing all but Arizona, Nevada and Alaska.

Georgia was second to Florida's population spurt, up 14 percent, followed by Virginia, which recorded a 10 percent increase.

The fastest growing metropolitan area of 1 million people or more between 1980 and 1986 was Atlanta, up 20 percent. Tampa/St. Petersburg, Fla., tied for second place with San Antonio, Texas, up 19 percent.

Only Washington D.C., and West Virginia lost population between 1980 and 1987, down 2.6 percent and 2.7 percent, respectively. Despite that decline, a number of industry observers noted that West Virginia holds expansion possibilities for discounters.

Lloyd Wickett, director of operations for K mart's Eastern region, explained that when wages are low, as they are in West Virginia, people tend to spend a greater portion of their wages. West Virginia, he said, has growth potential for the nation's largest discounter. K mart, said Wickett, will be adding more stores in the South Atlantic region this year than the discounter did in 1987.

Among the discounters that have already announced store additions in this region are BJ's Wholesale Club, PACE Membership Club, Bradlees, Rose's, Wal-Mart, Sam's Wholesale Club, Murphy's Mart, and Glosser Brothers, operators of Gee Bee stores.

The greatest number of the region's inhabitants, 11 million—according to *Sales & Marketing Management*'s 1987 report, which was based on 1986 data—were age 50 and over, followed by 10.3 million, age 0 to 17; 8 million who were 35- to 49-years-old; 7.1 million, 25 to 34; and 4.7 million, 18 to 24.

Maryland Has Highest Income

The median age in this diverse region was 32.9 years, reported *S&MM*. These consumers had a median household effective buying income of $23,400, with the highest EBI recorded in Maryland, $30,687. The lowest, $18,615, was in West Virginia.

The region had a total civilian labor force of 20.981 million in March, the U.S. Department of Labor reported, and an unemployment rate of 4.7 percent, down from 5.7 percent one year ago. That rate is equal with the three-state Mid-Atlantic region and higher only than the six New England states. In fact, the unemployment rate here was the lowest in the decade.

Throughout the region, unemployment rates varied from a low of 3.2 percent in Delaware—which was tied with Massachusetts for the lowest rate in the nation last year—to a high of 10.8 percent in West Virginia, the third highest in the nation.

Last year, 18.9 percent of the total non-agricultural labor force was employed in retail trade, according to Wayne D. Gantt, economist with Sun Trust Banks, Atlanta, up from 17.4 percent in 1982, 16.1 percent in 1973 and 0.8 percent higher than the nation as a whole.

Florida employed the greatest percent of retail workers, according to Zandi, 21.8 percent, up from 20 percent in 1973. South Carolina recorded the greatest increase, from a retail employment of 13.7 percent in '73 to 18.6 percent today.

The prosperous South Atlantic had three of the nation's top housing markets in 1987: Atlanta, Washington D.C., and Tampa/St. Petersburg.

Between 1980 and 1990, the population in the South Atlantic is projected to grow by 18.4 percent, to 43.7 billion, the Census Bureau reported. The largest increases will be recorded in Florida, which is projected to swell 31.5 percent, and Georgia, up 22 percent.

Between 1990 and 2000, the region will grow another 14.3 percent to just over 50 million people. The growth will be led by Florida and Georgia, at 19 percent and 20 percent, respectively.

South Atlantic Snapshot

The diversified South Atlantic states are enjoying the fastest growth in employment in the country.

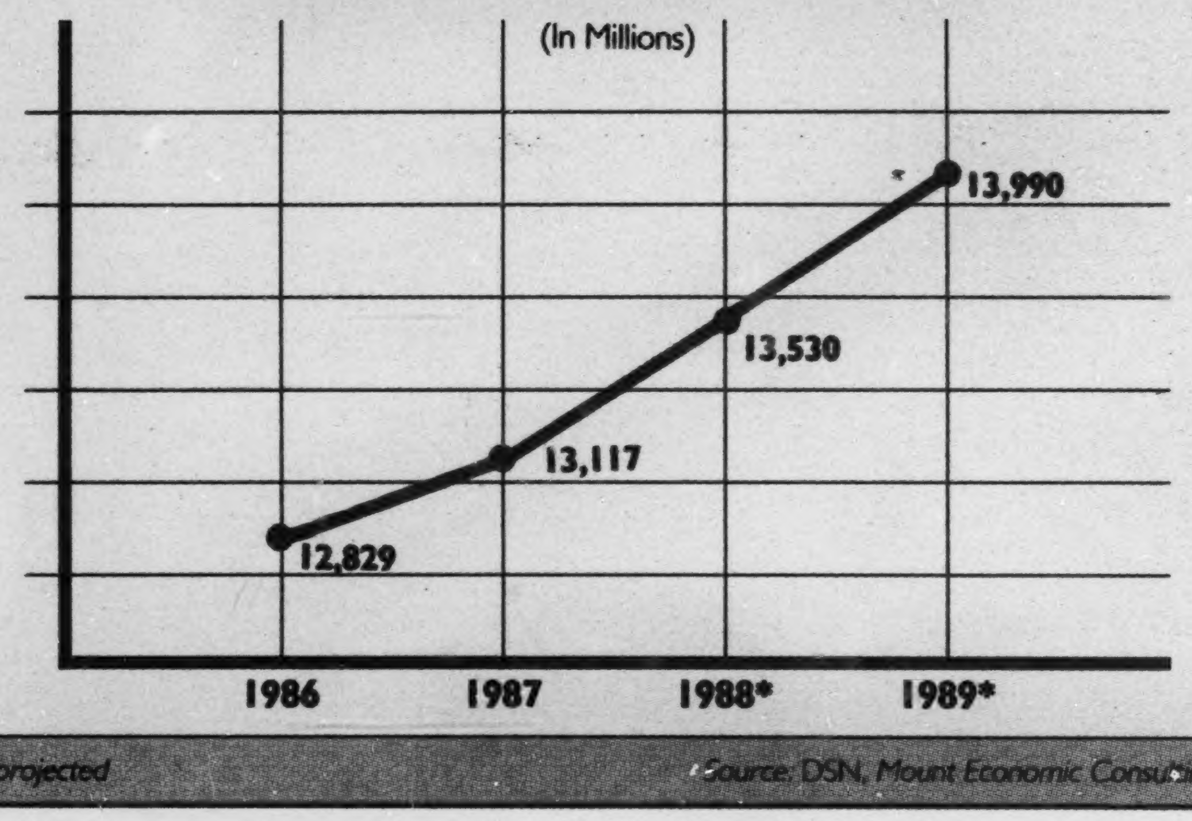
Tourism is a major industry in the region, and the weakness in the dollar is increasing domestic travel. High-tech industries are strong in Florida, North Carolina, Virginia and parts of Georgia. Defense is also a major part of many local economies. Light manufacturing is benefiting from the decline of the dollar.

West Virginia remains the soft spot because of its coal mining.

Through 1989, the South Atlantic region should grow somewhat faster than the national average due to tourism and high-tech industry.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Delaware	6.1%	4.8%
District of Columbia	3.1	5.8
Florida	6.0	5.0
Georgia	2.6	6.0
Maryland	3.0	5.1
North Carolina	4.3	4.2
South Carolina	4.0	5.6
Virginia	4.6	4.1
West Virginia	1.9	13.2
Total:	4.3	6.0

South Atlantic Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

South Atlantic Region: Discount Store Count

Chain	Stores	Chain	Stores
Family Dollar	690	Bradlees	41
Dollar General	424	Best Products	40
K mart	423	Murphy's Mart	33
Rose's	190	Brendle's	32
Wal-Mart	178	Gold Circle	29
Zayre	133	Hills	17
Sky City	68	Magic Mart	13
Service Merchandise	65	PACE	12
Maxway	59	W. Bell	12
Heck's	51	Bargain Town U.S.A.	10
Ames	46	Others	140
L. Luria	43	Total:	**2,749**

Source: DSN research

Fort Lauderdale:

Discounters Soak Up So. Florida's Sun and Dollars

As one of the hottest retail markets in the country, Fort Lauderdale in Broward County is a bitterly competitive and somewhat overstored market.

FORT LAUDERDALE, Fla. — Southern Florida, reeling under a population explosion during the 1970s from which the area has never recovered, is one of the hottest retail markets in the country. However, it is a bitterly competitive, somewhat overstored market, and retailing newcomers might have problems overcoming the local loyalty to entrenched retailers like L. Luria catalog showrooms, Burdines department stores and Publix supermarkets.

The Fort Lauderdale area has a little over 1.1 million residents (as of 1986), a very slight (in relation to Florida growth as a whole) increase of about 13 percent over 1980, and Fort Lauderdale proper actually lost population during that period. However, growth was so dramatic during the '70s that the area's highway system has virtually collapsed. Recently, the population has started growing again, and by 1990, should total nearly 1.5 million.

While population increases were relatively modest, retail growth has been explosive. Among others, BJ's Wholesale Club, Sports Authority and Branden's have located here, and others like K mart, Luria and Zayre have expanded their operations in the area. Other major players in the market are Richway/Gold Circle, Marshalls and a wide selection of specialty retailers like Toys "R" Us and T.J. Maxx.

A Smaller Retiree Population

From a visitor's perspective, Lauderdale seems to have a smaller retiree population than other major Florida cities, which may partly explain the success of retailers like Sports Authority and Branden's, which appeal primarily to a younger, affluent customer base. And despite median income figures which place the area significantly below the national average (median family income was a little over $19,000 in 1985), there seems to be no shortage of those target shoppers.

That may be partly due to the changing makeup of the city's population. Since 1980, over half of the 100,000 or so new residents were in the prime 25- to 44-year-old age group, with seniors (over 65 years of age) the second fastest growing group. The younger group is, of course, a discount retailer's dream, demographically speaking.

Seniors, particularly in the Gold Coast area, where land prices are traditionally much higher than in most other Florida coastal areas, also tend to be good customers.

Contrary to common perception, senior citizens are not, as a rule, living on meager social security checks. Many are very well off, and they have become a potent consumer group, particularly at the discount store level.

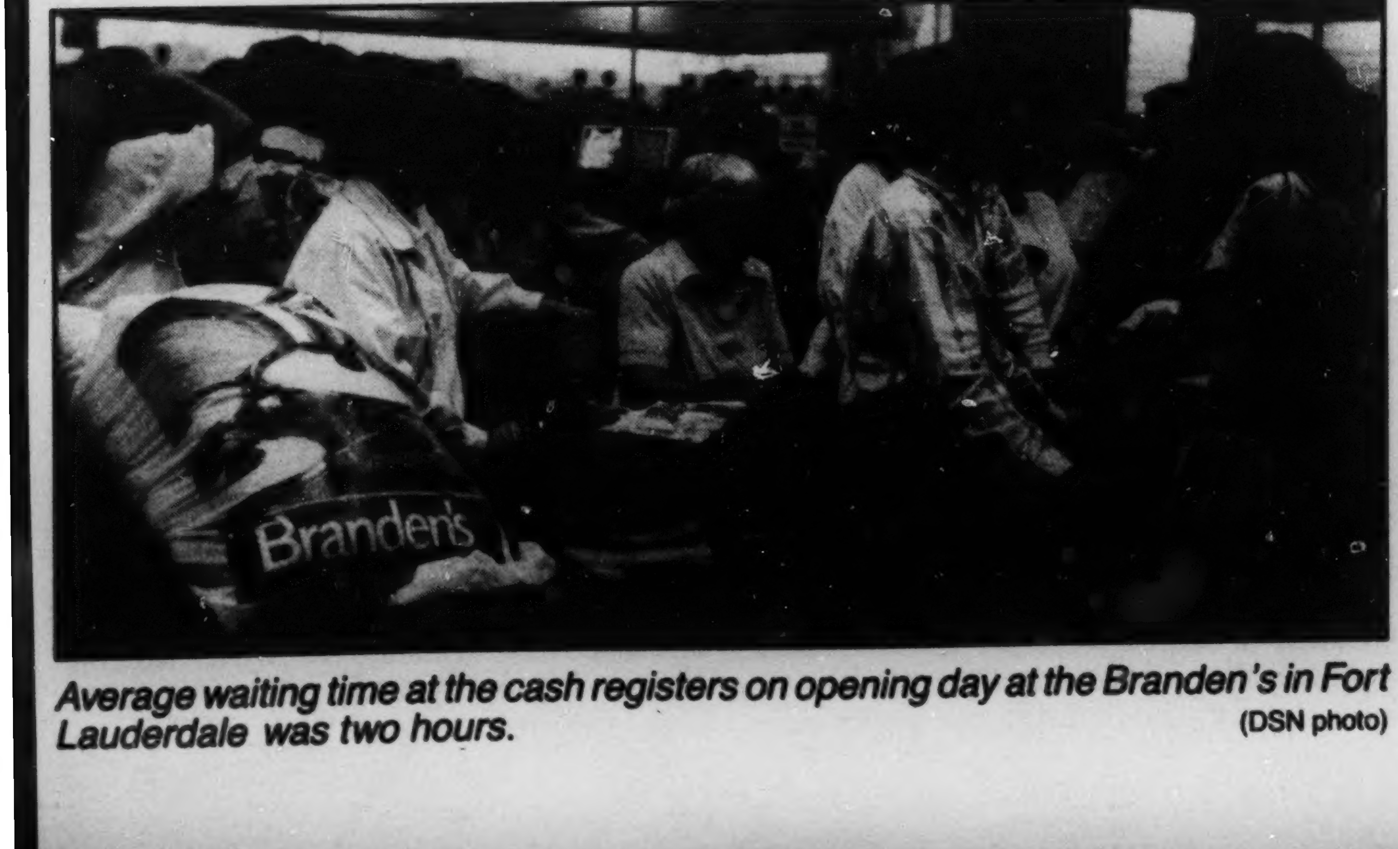
The recent opening of Branden's, the home fashions and housewares chain operated by Dayton Hudson, was a dramatic example of just how aggressive Fort Lauderdale shoppers can be. With little more than a full-page newspaper ad on opening day and a few spot radio ads, the outlet drew a crowd which could have overwhelmed a hypermarket.

The new retailer is located in a brand new mall, and it was the only store open that day. Virtually every parking space in the entire mall was taken, with traffic jams outside caused by a backup of shoppers trying to find a parking space. Average waiting time at the cash registers was about two hours, a figure which, if anything, understates the pandemonium ruling that day.

An assistant store manager said that while she expected a crowd, she was overwhelmed by the actual turnout. She credited the attendance to "customer knowledge" of Branden's (another store is located in Miami). A local paper explained the phenomenon by saying "people here just love to shop."

As prosaic as that explanation appears, it is probably very close to the truth. At times, Fort Lauderdale seems to be one big "Miracle Mile," with discounters, specialty stores, department stores, flea markets and hundreds of other retailers crowded in cheek to cheek. Yet all of them are busy and customers are buying.

The activity is partly explained by southern Florida's tourist trade, which attracts millions of visitors each year. Many of these rent houses, cabins, apartments and efficiency hotel rooms, and therefore often need housewares, beach merchandise, food and a wide variety of other goods.



Average waiting time at the cash registers on opening day at the Branden's in Fort Lauderdale was two hours. (DSN photo)

However, that trade is limited mainly to areas near the beaches, and most discounters are located near the faster growing areas inland, on either side of the Florida Turnpike. Evidently, Fort Lauderdale discounters gain only somewhat from the tourist trade.

In the past decade, the South has been the fastest growing region in the United States, more than doubling its retail sales in the 10 years since 1978. The South Atlantic section of the South, which includes Florida, was the hottest area within the region.

Florida itself has grown to become the fourth largest state in the union in retail sales, up from seventh in 1978. The Miami/Fort Lauderdale metro area accounted for over 25 percent of the overall sales, and was the fastest growing sales area within the state.

Overall, Florida retail sales jumped 5 percent over last year, but discounters were up some 11.1 percent. At the same time, sales over the South cooled off, showing only a mediocre increase compared to the Northeast, which has become a new retail hot spot.

However, the South Atlantic region turned in a strong showing, finishing behind only resurging New England in retail sales growth. According to Commerce Dept. data, which are lower than other industry estimates, discount store sales in January were roughly $750 million vs. about $700 million in January of 1987. Florida discount sales were roughly $295 million of that January total, up from $265 million the year before.

About $65 million of that was in the Miami/Fort Lauderdale area, with Fort Lauderdale accounting for $28 million. Overall, the metro area showed a 2 percent rise in retail sales over last year, with nearly all of the growth coming from Fort Lauderdale.

These figures reflect the common perception that the Sunbelt is cooling off after a decade of record-breaking growth. While that perception is basically accurate, the slowdown has been in relative terms only. Southern Florida is still a strong retail market, and projections of population and income increases over the next decade indicate that it may explode all over again.

A good deal of the slowdown can probably be traced to the building boom of the mid-'70s. Beach areas were quickly saturated with new condominium developments, many of which remained un- or under-occupied through the recessionary times of the late '70s and early '80s. Now those areas are fully occupied, and full-scale construction of middle- and upper-income housing has just started inland.

Since it has become apparent that people *will* pay to live in this less desirable area, the seeds have been sown for another land boom. Florida remains a destination state for many Northerners, with its climate and relatively low cost of living the main drawing cards. A house or condominium in Fort Lauderdale remains a real bargain by Northeastern and Midwestern standards.

The result should be a sharp increase in population in the Fort Lauderdale market, with an attendant increase in retailing in general and discounting in particular.

According to 1985 figures released by the Greater Fort Lauderdale Chamber of Commerce, Broward County (which comprises Fort Lauderdale, Hollywood, Pompano Beach and several smaller locales) ranked fourth in the state in population and 40th among 317 U.S. metro markets.

In terms of disposable income, however, the area was significantly below the U.S. average. In 1985, effective buying income in the county was $16,237, only about 60 percent of the national total. However, when nearby Dade and Palm Beach counties were factored in, the total was nearly 70 percent *above* the national average.

Broward County: Discount Store Count

Chain	Stores
K mart	9
Zayre	8
L. Luria & Son	7
Service Merchandise	6
Richway	4
Best Products	2
BJ's Wholesale Club	1
Costco	1
Wholesale Plus	1
Total:	**39**

Source: DSN *research*

The disparity in income is rather easily explained; Broward County contains relatively few enclaves of the truly wealthy, as opposed to, say, Miami or West Palm Beach. The town is almost relentlessly middle class; a perfect discount marketplace.

In 1985, Broward County retailers sold $891 million in general merchandise, $557 million in home furnishings, $406 million in apparel, $296 million in building materials and $291 million in drugs. Presumably, discounters accounted for large portions of most of those products; estimates are that the percentage ranges up to 50 percent.

That's a sizeable market by anyone's standards. According to estimates of population, housing and income growth over the next decade, that market should virtually explode by the year 2000.

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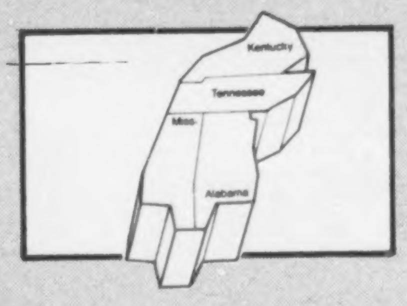
Regional Analysis:
East South Central
Kentucky • Tennessee • Alabama • Mississippi



Bleak Economy Begins to Brighten

The East South Central region is inching toward economic recovery, but compared to the rest of the country, this four-state area—Tennessee, Alabama, Kentucky and Mississippi—is a mile away from the U.S. average unemployment rate, economic vigor and income level.

Moving with the slow current of growth are discounting's 80,000-square-foot giants along with 9,000-square-foot dollar outlets; and both groups are successfully capitalizing on the other's shortcomings.

The region resembles the craft of its early settlers who realized their Conastoga wagons could not climb the Appalachians. Like a patchwork quilt, the fabric of the area is a collage of striking contrasts: wealthy and impoverished, urban and rural, high-tech scientific industries and "scratch" farming behind a house without electricity.

By cultivating service industries, attracting foreign investors, reaping the benefits of the resurgence in domestic manufacturing, and promoting workforce education, the states of the East South Central region are showing signs of a turnaround.

In urban areas, like Louisville and Lexington, Ky.; Memphis and Nashville, Tenn.; Jackson, Miss.; and Huntsville, Ala., the development of medical, technical and service industries has triggered an economic rebirth.

By cultivating service industries, attracting foreign investors, reaping the benefits of the resurgence in domestic manufacturing, and promoting workforce education, the states of the East South Central region are showing signs of a turnaround.

In the coal country of Kentucky's Appalachian Mountains and rural Mississippi, people are letting go of the hope that demand for the area's abundant coal resources will rise in the near future. The realization has encouraged economic planners to turn their attention to improving educational standards and exploring new industries.

Ron Morgan, branch manager of general research at the Kentucky Commerce Cabinet said the government has tightened school achievement standards in hopes that an educated workforce will encourage new industries to make the state their home base.

"Significant educational reforms have been make by the state to enforce accountability of grade level achievements," he said, adding that the low level of business growth in the state is a "chicken and egg situation. The two almost have to happen simultaneously. The availability of skilled manpower spawns entrepeneurship."

Despite efforts to educate Kentucky residents, Dr. Michael Price, director of population statistics at the Urban Studies Center at the University of Louisville, said the state is watching its educated population leave for better opportunities.

"There has been a net out-migration from Kentucky of between 10,000 to 30,000 people since 1979. Overall, the more educated are leaving the state," he noted. "Exceptions include Louisville which is losing blue collar workers and gaining white collar workers due to the growth in health-related industries."

Dr. Price said that while Toyota recently opened a plant in the state, testing for job applicants, "is like nothing we have ever seen before," due to automation. "Line jobs now involve using a computer, not just tightening a nut."

Service-Related Industries

At the opposite end of the spectrum, Tennessee is leading the region's growth with the development of health- and service-related industries in and around the cities of Memphis and Nashville.

While Tennessee's median household effective buying income in 1986 was below the U.S. median of $24,632, according to *Sales & Marketing Management*, it was the highest in the region, at $20,426—a $616 increase over the previous year's level.

The standard of living for most state residents is improving, but there remains a stubborn poverty rate that is commonplace throughout the region; 24 percent of households earn under $10,000. Per person income levels among this predominantly black population are still lower.

While this 24 percent figure might sound large, it is actually the lowest in the region. Twenty-six percent of Kentucky and Alabama households earn under $10,000, and 30 percent of Mississippi households fall below this income level.

While these statistics paint the picture of a bleak economy, reports published by state economic and development departments show that when the region is compared against its own previous performance instead of the nation as a whole, a slow but positive economic direction can be discerned.

In Mississippi, growing interest from foreign investors, especially British and Canadian firms, are bringing much-needed capital and jobs into the state. The most recent data available from the Mississippi Research & Development Center states that roughly 16,000 jobs were brought to the state from companies such as McMillian Bloedel Ltd., a Canadian forest products company, and Chloride Group Ltd., a British company that manufactures automobile batteries.

The state's long-term outlook for the Mississippi economy between 1989 and 1993 is for a 6 percent growth rate, with a real gross state product expansion of 2.3 percent annually, according to R&D Center reports. Employment in service industries is expected to rise; personal income is projected to rise at the national rate.

Alabama is showing promise of becoming a major technological center with the city of Huntsville at its heart. The county of Birmingham, especially the cities of Shelby and Jackson that have health service economies, is also setting the growth pace.

Huntsville, which first appeared on the map as a result of major investments in the U.S. space program during the 1960s, is enjoying accelerated growth due to the present administration's Strategic Defense Initiative, or "Star Wars" program. Due to the development of high-paid technical jobs, the city has the highest median household income in the state, exceeding $27,000.

Vying for Consumer Dollars

Discounters in the East South Central region are vying feverishly for consumer dollars despite the region's history of impoverishment. Most of the population does not have an income level that would permit investments on houses and other major purchases. As a result, larger percentages of per capita disposable income are spent at discount stores and other outlets that sell general merchandise.

For example, 14 percent of total retail sales in Mississippi and Tennessee, are spent on general merchandise compared with 10 percent in California and Connecticut, and 11 percent in both Colorado and Indiana, based on computations of *Sales & Marketing Management* data.

The dominant retailers trying to squeeze into these often tiny markets are K mart, Wal-Mart and hoards of dollar stores.

Rodney Barstein, president of Birmingham, Ala.-based dollar discount chain, Bargain Town USA, said future growth of his 48-unit chain will focus on the state of Mississippi which he believes is understored.

(Continued on page 136)

East South Central Snapshot

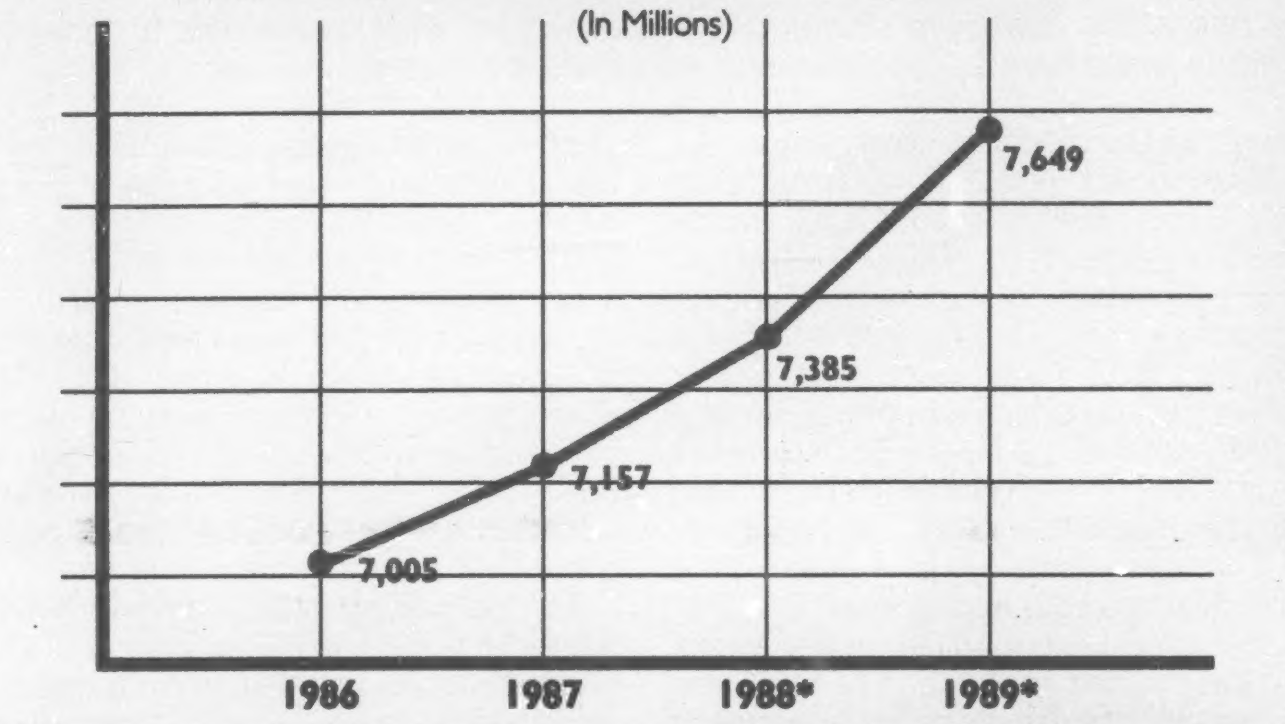
The East South Central states present a broad mixture of agriculture, manufacturing and mining. The region is among the fastest growing in both total and manufacturing employment, but pockets of weakness persist in energy sectors. Mining in Kentucky is off 2.4 percent from a year ago.

Growth through 1989 should continue to outpace the nation because of the manufacturing base.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Alabama	2.9%	7.7%
Kentucky	4.3	9.7
Mississippi	3.9	9.7
Tennessee	4.3	6.6
Total:	3.9	8.4

East South Central Discount Store Sales

(In Millions)



*projected

Source: DSN, Mount Economic Consulting

East South Central Region: Discount Store Count

Chain	Stores
Dollar General	337
Family Dollar	287
Wal-Mart	230
K mart	168
Bargain Town USA	48
Service Merchandise	39
Rose's	32
Zayre	28
Maloney's	20
Hills	15
Target	14
Gibson's	13
Heck's	13
Sam's Wholesale Club	13
ALCO	7
Goldboro Distributors	6
Gold Circle	4
Fred P. Gattas	4
Standard Showcase	2
Wilbro	2
Brendle's	2
PACE	2
Total:	**1,286**

Source: DSN research

Huntsville, Ala.:

Technology and Conventions Boost Retailers' Sales

HUNTSVILLE, Ala. — A place that was sacred to the American Indians in years past has evolved into a city that boosts mankind to the stars.

This high-tech city now boasts one of the highest income levels in the East South Central region, and what some discounters have found to be a lucrative marketplace.

Prior to the "space boom" of the 1960s, Huntsville was a town of about 16,000. In one decade, the city's population blasted 340 percent to over 72,000 triggered by the U.S. government's decision to base one of its primary missile complexes, NASA's George C. Marshall Space Flight Center, in Huntsville.

While the local chamber of commerce notes that agriculture still contributes over $60 million to the yearly gross income of Madison County, where Huntsville is located, there is no denying the impact that the space program, and, most recently, the Strategic Defense Initiative program, has had on the city and county.

Strong Convention Business

Not only have major high-tech companies like Boeing, SCI Systems, Teledyne Brown Engineering and ONA brought jobs and capital to the city, secondary industries like a healthy convention business have evolved around the space industry. During the eight-year period of 1979 to 1987, the revenues generated from conventions within Madison County rose from $15 million to nearly $40 million.

All this aerospace, convention and agricultural activity has generated enough revenue to fill every retailer's cash register. Wal-Mart apparently believes the city will give stores a prosperous future; the chain opened four discount stores and a Sam's Warehouse Club within the city's 135-square-mile area.

Hills Department Stores, which has only two stores within the entire state of Alabama, selected the city of Huntsville as one of its locations, and Decatur—which is right across the Tennessee River from Huntsville—as the other.

At the other end of the spectrum, Bargain Town USA, a chain that is based in Birmingham, Ala., and operates nearly all of its 50 stores in the state, does not operate a single store in Huntsville.

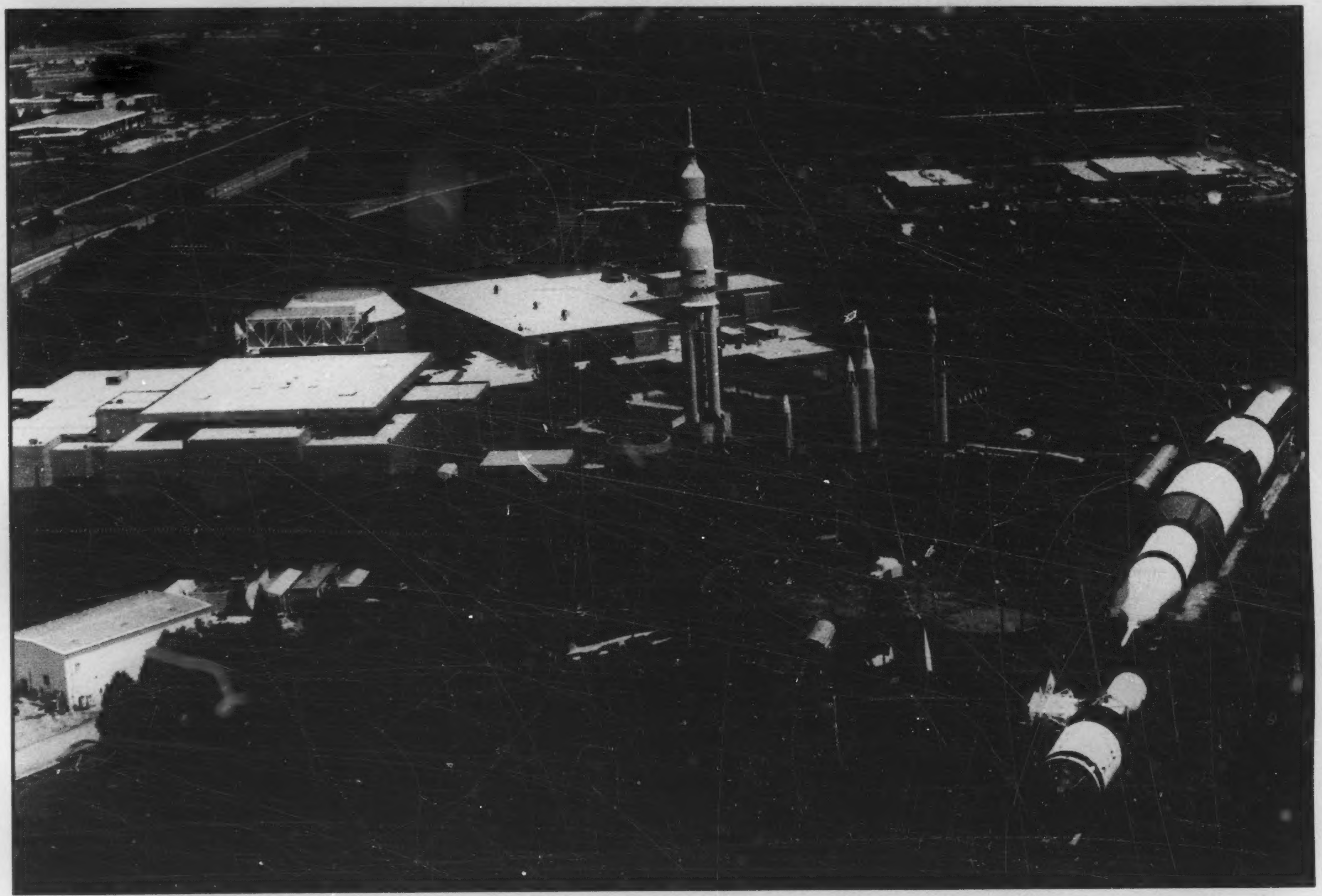
"Anyone who isn't based in Alabama wants to open their Alabama store in Huntsville," said Rodney Barstein, Bargain Town president, who added that his chain "has no interest in Huntsville." He believes the town is already overstored with outsiders.

While discounters other than Bargain Town did not say they had immediate plans for additional store openings within Huntsville's city limits, no one interviewed ruled out the possibility that expansion within Alabama could entail more Huntsville stores.

Huntsville is home to over 225,000 people, living in 84,000 households, according to the 1987 *Sales Marketing & Management* report. Like much of the East South Central region, over 20 percent of the households have an effective buying income (EBI) of less than $10,000.

Unlike most of the region, however, Huntsville also has within its borders more than 16,000 households with an EBI of $50,000 or above.

Taking all income levels into consideration, the city as a whole has an EBI which exceeds the EBI of well-established cities such as Cincinnati; Providence, R.I.; Phoenix, Ariz.; and Nashville, Tenn., based on *S&MM* figures.



The U.S. Space Center has provided the impetus for skyrocketing growth in Huntsville's population and economy.

Hills Department Stores, which has only two stores within the entire state of Alabama, selected the city of Huntsville for one of its locations. (DSN photo)

Huntsville: Discount Store Count

Chain	Stores
Wal-Mart	4
Dollar General	2
Family Dollar	2
K mart	2
Service Merchandise	2
Hills	1
Goldboro Distributors	1
Sam's Wholesale Club	1
United Jewelers & Distributors	1
Total:	16

Source: DSN research

Slow Recovery in East South Central Region

(Continued from page 134)

In regard to the health of the region's economy he said, "There is no single industry that these two states really rely on that would really hurt the economy if they were to fail. We always lag behind, but when everyone else falls we are not hit as hard."

The chain was recently purchased by Montgomery, Ala.,-based Kindercare, the service-oriented conglomerate that had its roots in a chain of child care centers.

With the backing of its new parent, Barstein estimates that the company will be in a high growth mode in the region for the next five years, launching a chain of 40 to 50 one-price apparel stores averaging 3,000 square feet next year. Bargain Town stores are more apparel-oriented than competitors Family Dollar and Dollar General, said Barstein.

In a region with a heavy Wal-Mart and K mart presence, Barstein sees dollar stores filling an essential niche.

"Dollar stores are an easier place to shop than K mart or Wal-Mart. We're smaller stores, have fewer lines and storefront parking. We're easier to shop, especially for the elderly."

Barstein also estimated that his store attracts more blacks than whites chainwide. "About 60 percent to 65 percent of our customers are lower- to middle-income blacks. A lot of our customers are Zayre customers, but not vice versa because they have a broader mix."

George Mahoney, senior vice president at Family Dollar, agreed that ease of shopping is the dollar store's primary advantage over the sprawling discount department store giants.

"Convenience—the size of our stores, flexibility, ease of finding the product, ease of getting in and out of the stores—these things distinguish us from others. We also fit into both small towns and urban centers," Mahoney stated.

He acknowledged that competition in the East South Central region is keen, but also noted that "comparable store sales for those four states are at least as good if not better than the chainwide average."

Same store sales were up 1.5 percent for the chain during the first quarter, and up 6.5 percent for the second quarter ended February 29. Of the chain's 1,355 stores, 287 are located in the East South Central area.

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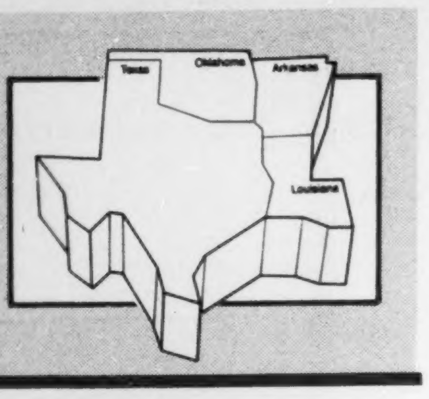
1988

Regional Analysis:

West South Central

Arkansas • Louisiana • Oklahoma • Texas



Oil Belt Regroups After Recession

Arkansas, Louisiana, Oklahoma and Texas, the West South Central states, comprise an oil- and gas-dominated region that suffered enormously as oil plunged to $10 a barrel in 1986. All four appear to have hit bottom economically, and are recovering to some extent or another.

Nonetheless, the four states show a wide diversity in economies.

Louisiana and Oklahoma are virtual basket cases. The Arkansas agricultural economy—largely based on chicken—has done surprisingly well. The giant of the region, Texas, has a strong manufacturing base, permitting it to recover from its energy woes with a surge of exports.

"The West South Central Region is going to come out of a recession in a little better shape than when it went in," predicted Robert Hayes, corporate economist for K mart.

Hayes said the region still offers the potential for market share development. Contrary to popular belief, "Discounting isn't a recession-resistant industry," Hayes said. "When income goes down, discount store sales go down." In Texas, "you could bury a lot of people" in the excess retail space that has been built, he said.

The region holds promise for the long term, Hayes said, but it may take three to five years for retailers to absorb that excess square footage.

Thanks to diversification and the lack of heavy dependence on oil and gas, Arkansas has done better than the rest of the region, Hayes said. Poultry and tourism spurred its economy while the rest of the region encountered an eight-year down cycle, he said.

Louisiana suffers not only from a heavy reliance on oil but also a "horrendous education system and a bankrupt state government," Hayes said. He is equally as negative about Oklahoma. "You've got oil wells and that's about it," Hayes said.

West South Central Snapshot

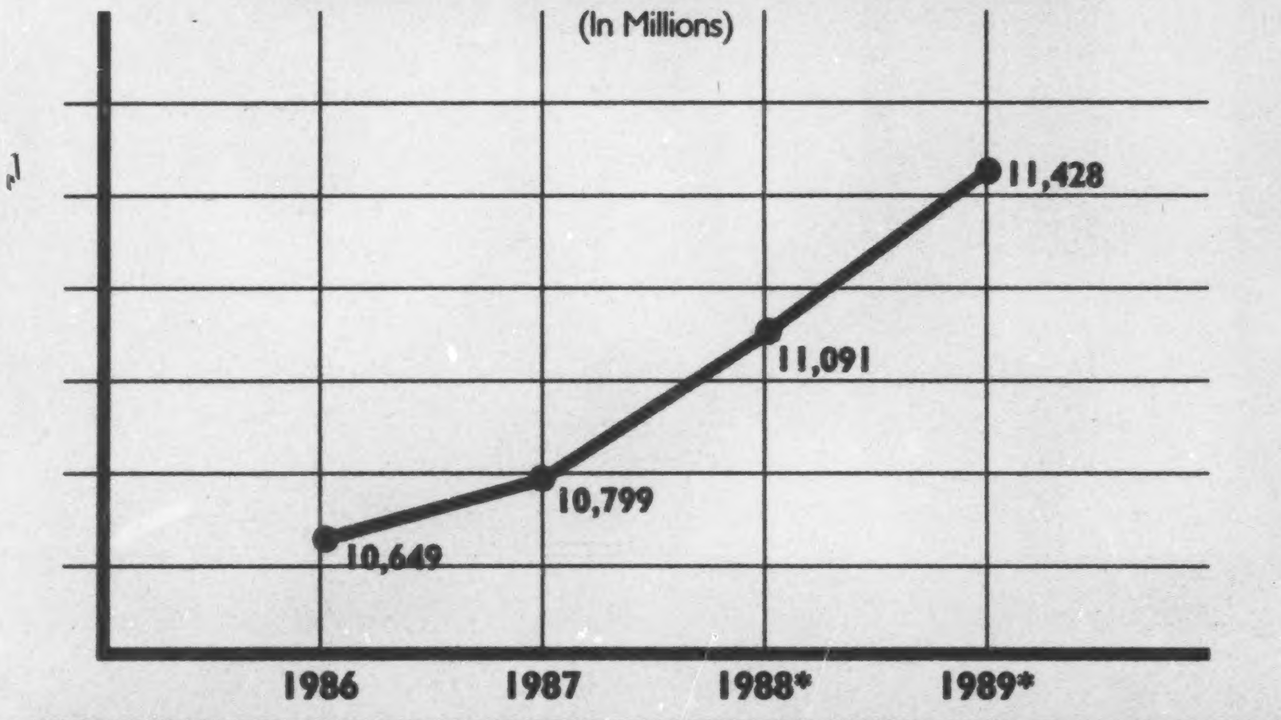
The outlook for the West South Central region depends largely on the energy situation. Following the drop in oil prices in the spring of 1986, this region began a sharp correction. Until energy prices turn up sharply, this area will be weak.

Among the states in the West South Central region, Arkansas is the strongest with employment gains of 4.3 percent from a year ago, well above the national average of 3.0 percent. Louisiana is the second strongest with employment up only 2.1 percent. Texas, suffering also from problems in its banking system, is third with a rise of 1.2 percent. Finance employment is down 0.9 percent from last year.

Oil prices are likely to increase only moderately by year-end 1989 as demand is growing slowly. For the West South Central states, growth below the national average can be expected through 1989.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate Feb. '88
Arkansas	4.3%	8.8%
Louisiana	2.1	12.1
Oklahoma	(0.9)	6.7
Texas	1.2	8.7
Total:	1.4	9.1

West South Central Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

West South Central Region: Discount Store Count

Chain	Stores
Wal-Mart	419
K mart	219
Dollar General	218
Family Dollar	141
Service Merchandise	60
Target	58
Sam's Wholesale Club	40
United Jewelers	40
ALCO	28
Gibson's Discount Center	16
Zayre	9
Best Products	8
Stein Mart	8
Fred P. Gattas	3
American Wholesale Club	2
Hypermart USA	1
Total:	1,270

Source: DSN research

Texas is enjoying a rebound in the oil and gas industry, a resurgence in electronics and aerospace industries, a strengthening of beef prices and increased demand for cotton, thanks to renewed interest in natural fiber apparel, Hayes said.

Despite their diversity, the four share one characteristic: the Wal-Mart stamp.

From its Bentonville, Ark., headquarters, Wal-Mart operates 419 discount stores and 40 Sam's Wholesale Clubs in the region. Its closest rival in full-line discount stores is K mart, with 219 stores in the region.

Following its acquisition of the 20 SuperSaver warehouse clubs last year, Sam's has the warehouse field virtually to itself. The only other operator in the region is American Wholesale Club, operating two Texas units.

Wal-Mart opened its first 200,000-square-foot hypermarket—and the first American hypermarket—in Garland, Texas, outside Dallas, last December. It plans to open two more of the same size elsewhere in Texas, and a smaller version in Wagoner, Okla., about 30 miles outside Oklahoma City, later this year.

The French hypermarket, Auchan, plans to open a unit this fall in Houston.

These are a few of the straws in the wind indicating that the worst appears to be over for the region, although most agree that rough times still lie ahead for Louisiana and Oklahoma.

Louisiana, suffering from a poorly diversified economy, lost 148,000 jobs between 1981 and the end of 1987, reported Dr. Loren C. Scott, chairman of the Louisiana State Department of Economics. In the spring issue of *Economic Newsletter,* Scott wrote: "Employment figures show emphatically that the state has bottomed out and begun economic recovery."

But the rub remains the uncertainty of oil markets, Scott added.

The various services that rank state business climates often fluctuate wildly in their ratings. However, three major ones—the Corporation for Enterprise Development, *Inc.* magazine, and the Chicago accounting and consulting firm of Grant Thornton—are uniformly down on Louisiana. Lack of new jobs, businesss vitality, earnings and job quality as well as a poor education system and high unemployment costs were among the factors cited in various reports.

Oklahoma is coming off a four-year recession and remains vulnerable to a national downturn, said Neil Dikeman, associate director of the Center for Economic and Resource Management at the University of Oklahoma. The economy still hasn't recovered from the recession, he said. "The slightest bump could cause a crack."

Per capita income has fallen to 82 percent of the national level, Dikeman said, from 99 percent. Because of heavy reliance on oil industry tax receipts, the Oklahoma state government also is facing a shortfall.

Retail sales slipped 10 percent in 1987 to $15.6 billion from $17.4 billion in 1986, Dikeman said. For 1988, retail sales are predicted to gain about 6 percent to $16.5 billion.

Discounters have captured market share in the state at the expense of small town, independent retailers, Dikeman said. In smaller towns, sales of independent stores have plunged as much as 30 percent, he said.

Among discounters, Wal-Mart, K mart and Sam's Wholesale Club have shown the most vigor, he said. In contrast, Target and Venture have shown little growth, he said.

Western Auto (which Sears acquired last month) has "pulled in its horns," Dikeman said, and Tulsa-based OTASCO, once a sound automotive specialty chain, is now troubled.

Arkansas is an agricultural-based economy, with 18 percent of its manufacturing jobs tied to food processing, said Dr. Phillip Taylor, director of the Bureau of Business and Economics, University of Arkansas.

Although the growth of jobs coincides with the national level, the influx of jobless workers from Louisiana, Oklahoma and Texas has kept the Arkansas unemployment rate above 7 percent, Taylor said.

Major chains are going well

The state's major discounters, Wal-Mart, K mart and Dollar General, are "doing fairly well," Taylor said. Wal-Mart is adding stores "here and there" in the state and opened three Sam's Wholesale Clubs, he said.

Wal-Mart appears to feel no danger of recession, Taylor said. The Bentonville-based chain is "super at inventory management," Taylor said, and can respond quickly to a downturn. Dillard's, the fast-growing department store chain based in Little Rock, also is strong on inventory mangement.

Many outsiders suffer from a general misconception about Arkansas, according to Taylor. "They would be surprised to see there's a lot of wealth in the state," from retirees and commercial successes, such as Wal-Mart, Whirlpool and Tyson, based in the northwest part of the state, he said.

Texas is the healthiest state in the region by far, said James Smith, former director of the Bureau of Business Research, University of Texas, and now senior lecturer in finance. Personal income is growing 6.9 percent in Texas, against 2.5 percent to 3 percent in the other three states, Smith said. He added that Texas is the No. 2 exporter of goods and services in the country.

"Discounters as a group have been doing well for the past two years," Smith said. In hard times, "it helps to have an reputation for lower prices."

He explained that Target is doing well in Texas; it and Wal-Mart are squeezing K mart from one side, he said, while Sears, Roebuck & Co. is squeezing from the other. "K mart is holding its own" in Texas, Smith said, but isn't in an expansion mode.

Sam's Wholesale Clubs have become "phenomenally successful," Smith said. (Texas is the largest state for Sam's, with 24 units.)

Wal-Mart's new Hypermart USA, Garland, is doing 60 percent better than expected, Smith said.

New Orleans:

Despite a Declining Economy, Discounting Thrives

Gains in tourism and shipping are improving the fortunes of New Orleans.

Louisiana Office of Tourism

NEW ORLEANS — The Crescent City is girding for the Republican National Convention in August, which may pump as much as $140 million into the economy.

Wal-Mart Corp. is getting ready to open its third Sam's Wholesale Club in metro New Orleans and opened in March its fourth New Orleans market Wal-Mart discount store in its drive to wrest dominance of the discount market from K mart.

Pic 'N'Save is tidying up details on an agreement to build a $50 million, 1 million-square-foot distribution center on a chunk of city-owned land and is planning to open three or four stores here in a new market for the California-based closeout chain.

Macy's this year opened its second store, and Lord & Taylor is preparing to enter the New Orleans market.

All of which should indicate that the pall of gloom cast over the land of Mardi Gras by the oil-fueled recession is at least beginning to lift.

New Orleans' economy hit bottom by the second quarter of 1987 and is struggling to recover the salad days when oil hit $40 a barrel—and then skidded to $10.

The unemployment rate hit a high of 11.8 percent by January 1987, and the number of residents who held jobs slipped to a low of 505,600 in February from a peak of 527,300 a year earlier.

In retailing, the number of workers hit a low of 102,400, compared to 107,200 in January 1986.

Leading economic indicators show the metro area economy probably will remain flat through August, predicted the Division of Business and Economic Research of the University of New Orleans.

Although the unemployment rate fell from a seasonally adjusted high of 11.3 percent in February 1987 to 9.3 percent a year later, wage and salary employment in the fourth quarter fell 0.4 percent from the year-earlier period, the University of New Orleans reported. Accordingly, "the decline in the unemployment rate reflects other factors—such as people leaving the area—rather than an increase in employment opportunities."

As unemployed oil and gas workers left town, population dipped to an estimated 1.326 million by July 1987 from 1.334 million a year earlier, still leaving it the nation's 27th largest metropolitan area. Housing starts slumped 8 percent last year to 4,454 from 4,843 in 1986 and fell 15 percent more in the first two months of 1988.

Personal income plunged $220 million in the second quarter of 1987 to $4.23 billion.

A private economic forecasting service projects employment will increase to 517,000 in 1988 and to 523,000 in 1989, said Robert Folse, director of research for the New Orleans Chamber of Commerce. Those gains still would leave the number of residents drawing payrolls below the 1986 level.

"Retailers are eating each other up" as they fight for the same customers, Folse said.

New Orleans was a strong Woolco town, Folse said, and when F.W. Woolworth closed its discount chain, K mart had the discount market pretty much to itself for a brief period.

But since Wal-Mart came to town three years ago, splitting former Woolco stores with K mart, it has wrested dominance from K mart, Folse said. It operates four units in the market and two Sam's Wholesale Clubs, with a third on the way.

New Orleans SMSA: Discount Store Count

Chain	Stores
Zayre	9
K mart	7
Family Dollar	5
Wal-Mart	4
Dollar General	3
Service Merchandise	3
Sam's Wholesale Club	2
Stein Mart	2
The Real Superstore	2
Total:	37

Source: DSN *research*

The turnaround is definite but the recovery won't "rip and roar," said Stella Schramm, director of commercial development for the Chamber.

Because the New Orleans economy is tied to oil, it won't boom again until oil does, Schramm said. At the same time, New Orleans is less dependent on oil than is Houston: 25 percent, against 50 percent, she said.

Tourism, another leg of the economy is gaining at least 3 percent, she said, and port tonnage, thanks to a cheaper dollar that is driving exports, has gained 18 percent so far this year.

The economy of New Orleans remains "rotten," said Charley Blaine, business editor of *The Times-Picayune*. Louisiana has the second worst unemployment rate in the country, he said, and New Orleans isn't much better. The economy is based on three legs, tourism, oil and the port, Blaine said, and one and a half legs, oil and the port remain sick.

The port has suffered for the past five years, he said. "New Orleans was is the wrong place after transportation deregulation." But at least the business the port brings has staunched the job-loss flow, Blaine said.

"New Orleans would be vulnerable to a national recession because it would bite into the city's tourism and convention industry," *The Times* reported.

The economic woes of Louisiana however, have allowed discounting to penetrate deeper, especially in New Orleans, said Dr. Joe Hair, marketing department chairman at Louisiana State University, Baton Rouge.

Wal-Mart, Sam's and K mart have expanded in the state, and are gaining market share at the expense of department stores and smaller, independent stores, Hair said.

New Orleans is doing at least 50 percent better than Louisiana as a whole, where retail sales, statewide, are gaining 2 percent to 3 percent. That's less than the rate of inflation, Hair said. (That follows a 3.9 percent decline in wholesale and retail trade during 1987, as reported by the University of New Orleans.)

In its economic outlook for 1988 and 1989, The College of Business Administration, Louisiana State University predicts that wage and salary employment in New Orleans will increase 0.6 percent in 1988 and 0.7 percent more in 1989. New Orleans would trail the national growth rates projected at 2.3 percent in 1988 and 1.4 percent in 1989, the LSU analysis concluded.

Sam's Has Met Projections

Managers of discount units here, report a mixed experience during the downturn. The manager of a two-year-old Sam's said his wholesale club has met projections in each of its two years. "We busted new ground," the manager said, "so we have no history to compare to."

The business of a nearby Wal-Mart also has increased, he said, indicating that the wholesale club hasn't cannibalized its business. "We don't carry the same sizes as the usual discount store," he said. Competition in general merchandise and food packaged in larger sizes comes from the two Real Superstores, of supermarket chain National Tea, the Sam's manager said.

A 2% Sales Growth Expected

A K mart manager, on the other hand, said, "There's no growth here, that's for sure." For 1988, the manager said he expects a 2 percent growth in sales, about half the inflation rate.

In addition to Sam's and Wal-Mart other competition comes from Stein Mart, a factor in clothes, the manager said. And, Schwegmann's, basically a supermarket chain, also is a general merchandise discounter, the K mart manager said.

A Zayre manager said his store is down 3 percent to 4 percent from last year. Some of the nine Zayre's in the metro area have increased sales, he said. "Not all are down."

In certain categories, Schwegmann's also competes with Zayre, the manager said.

The manager of a Wal-Mart said The Real Superstore is his toughest competitor in terms of price on general merchandise. The Real Superstore is weak on clothing, he said. His Wal-Mart unit does 40 percent of its business in apparel, the manager said. "We're beating the socks off Zayre," the manager said, "and I think they would agree.

"We shine when the economy's bad. We're doing well and are happy with the area."

New Orleans SMSA Economic Indicators

Indicator	1988	1987	1986
Unemployment Rate*	9.8%	10.9%	10.1%
Total Number Employed**	509,900	505,600	527,300
Retail Trade Jobs**	102,900	102,400	107,200

**March of each year* ***January of each year*

Source: Greater New Orleans Chamber of Commerce, Bureau of Economic Analysis, Louisiana Department of Commerce

IMRA
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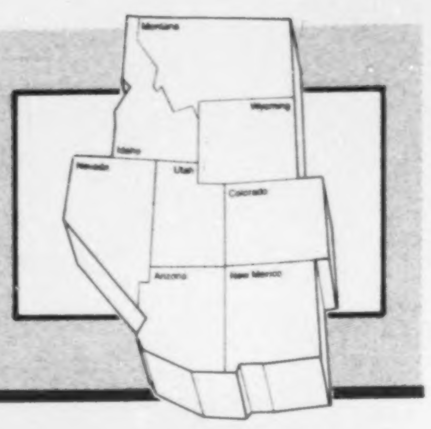
1988

Regional Analysis:

Mountain

Montana • Idaho • Wyoming • Colorado
New Mexico • Arizona • Utah • Nevada



Pacific Growth Rubs Off on Mountains

Stretching through diverse territories of dry deserts, flat fields and giant mountains, the nation's Mountain region is characterized by an economic structure that is as diverse as its geographic terrain.

Consisting of New Mexico, Nevada, Arizona, Utah, Colorado, Wyoming, Montana and Idaho, the Mountain states reached a total population of 13.2 million in July 1987—a 15.8 percent increase since 1980, according to the U.S. Census Bureau.

Nevada and Arizona accounted for much of the growth, and the two represent the best economic areas of the region. Between 1980 and 1987, Nevada's population grew 25.9 percent and Arizona's grew by 24.6 percent. While growth over the past year has actually dropped in some of the Mountain states, these two have held to positive growth figures.

Extension of West Coast

Because of the close proximity to California, these two states are seen by many economists to almost be an extension of the West Coast. In fact, according to a recent story by the *Los Angeles Times*, some companies have either moved or are looking to move to Arizona and Nevada because of cheaper land and labor costs, knowing they will still be close to the West Coast activity.

Retail sales in the two states have been strong, and discounters have showed particular interest in the areas over the last few years. While Yellow Front and Smitty's are two home-grown discounters in Arizona, the state has seen entries by Price Club and Price Savers, and Wal-Mart will soon arrive.

Nevada has also provided interest for discounters like Target and ShopKo, Costco, Pay Less NW and several off-price apparel chains.

New Mexico Shows Promise

To the east of Arizona, New Mexico has shown some recent growth, too, but not of the same magnitude as Arizona and Nevada. The population has increased steadily over the last few years, growing by 15.1 percent between 1980 and 1987. However, unemployment in New Mexico was high last year at 8.9 percent, although it had dropped from 9.2 percent in the previous year.

Together, the eight Mountain states produced $4.55 billion in discount store sales in 1987. This figure is expected to reach $4.66 billion and $4.80 billion in 1988 and 1989, respectively, according to exclusive research by Mount Economic Consulting for *DSN*.

However, economists said that they expect there will be little growth in some of the Mountain states which are still suffering from the drop in energy prices.

In Wyoming, where the population actually dropped 3.4 percent from 1986 to 1987, the population and economic climate is expected to continue declining this year and possibly level off in 1989, according to Carol Bray, assistant vice president and regional economist for First Interstate Bank Corp.

The Wyoming unemployment rate in 1987 was 8.6 percent, falling slightly from the 9.0 percent in 1986.

Wyoming's retail base includes discounters such as K mart, Yellow Front, Target, Pamida and ALCO, but the area is noticeably devoid of off-price apparel chains like Marshalls, Ross or T.J. Maxx.

In nearby Montana, the retail presence is similar. However, Fred Meyer, the Pacific Northwest-based superstore operator, Pay Less Drugs, and ShopKo are significant factors there.

Montana has suffered from the decline in both oil and agriculture prices, said Bray, although the latter have been sustained by the government. Population grew some 2.9 percent form 1980 to 1987, but dropped 1.0 percent between 1986 and 1987, while the unemployment rate was estimated to be 7.4 percent last year.

Idaho's unemployment rate in 1987 was higher at 8.0 percent, but Bray said there has been some economic growth, spurred on by high-tech industries. "It's a state with some positive factors going for it," noted Bray.

A stronger discounter presence is felt in Idaho, where Pay Less NW has 15 stores; Yellow Front and K mart, 11 each; ShopKo, seven; Fred Meyer, six; and T.J. Maxx and Pic 'N' Save each have one unit.

Despite its somewhat sluggish economy, Utah is also a busy discount market, as evidenced by ShopKo opening four stores there this year. Although it's Price Savers' home territory, Costco has also entered with one site, while K mart and Fred Meyer each have 17 locations; Yellow Front and Pic 'N' Save each have six; and California-based off-pricer Ross operates two stores.

Bray said there has been some recent moderate growth in Utah because of increased prices for the state's copper and silver resources. The state has also benefited from modernization improvements made at the mines, which were closed for some time, explained John Lucking, economist with Valley National Bank.

Lucking said the only negative aspect of the mine modernization is that fewer people are now employed. Unemployment for Utah was 6.4 percent in 1987, up from the 6.0 during the previous year, even though the population decreased during the two years.

Colorado Still Suffering

Colorado's unemployment rate also rose in 1987, to 7.7 percent from 7.4 percent in the previous year. At the same time, the population also dropped. Economists reasoned that Colorado is still suffering from the drop in energy prices, while also now facing an unpleasant situation which makes the area less desirable—smog. The Denver/Boulder area was recently ranked even smoggier than the Los Angeles basin.

Discounters in Colorado include home-grown membership warehouse clubs PACE and Buyer's Club in addition to major national chains like K mart, Target and Wal-Mart. Wal-Mart intends to open one more site in the state this year, bringing its statewide count to 18 stores, while PACE has closed one of its locations this year and transformed the site into a distribution center.

Other discounters include T.J. Maxx, Pay Less, Pic 'N' Save, Ross, ALCO, Marshalls and Yellow Front. While the state has produced lackluster sales for some retailers, Sean Lee, Yellow Front president, said his chain has actually done quite well.

Former Bonanza stores purchased by Yellow Front last year and recently brought under the Yellow Front merchandise mix and banner have actually been able to increase sales, Lee said. "As disposable income comes down, we seem to do better," Lee explained, citing the attractiveness of Yellow Front/Bonanza's low-priced closeout merchandise for much of the positive results.

The overall outlook for the Mountain region is mixed because of the varied economies of the eight states, but economists agree the strong areas will remain relatively good while the weaker markets gradually repair themselves and stem their declines.

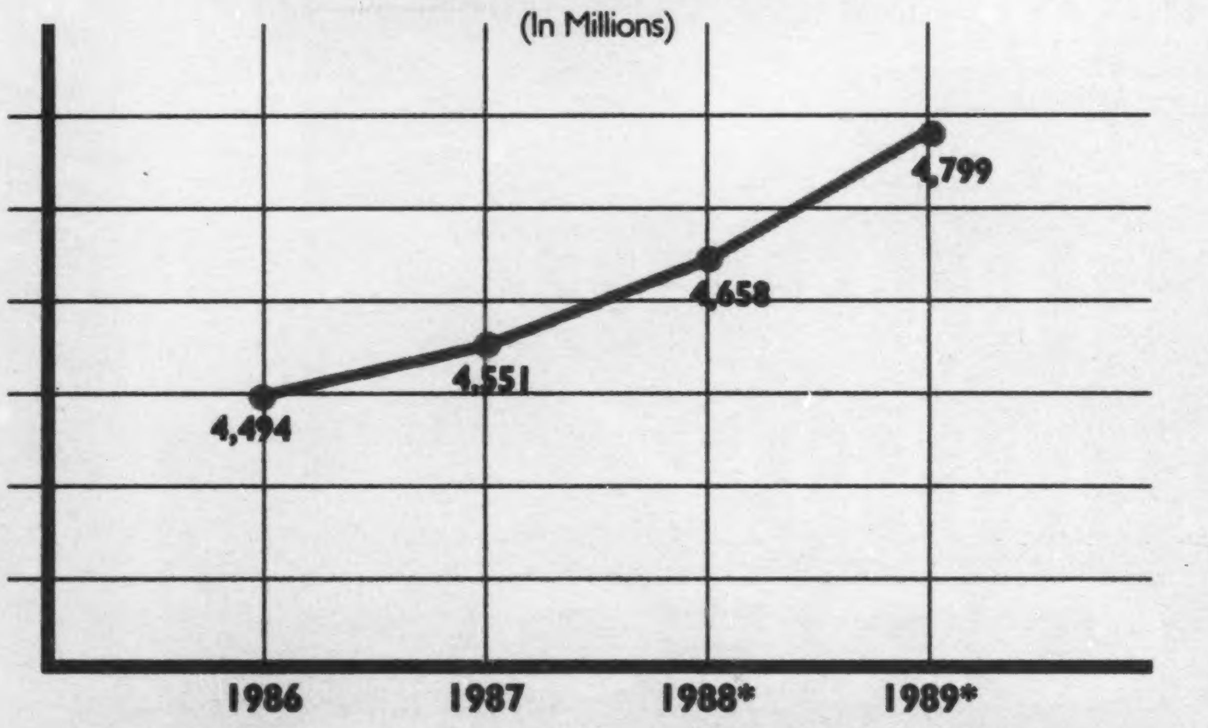
Explained an Economic Perspectives report: "With most of the downward pressures on the oil industry now behind them, the West South Central and Mountain census divisions are projected to see far better comparative economic/retail sales growth rates over the period 1988 to 1992 than what has been experienced since 1985."

Mountain Snapshot

Employment gains in the Mountain states continue to lag the national average, pulled down by less energy mining activity in Colorado and Wyoming. On the positive side, Nevada has the strongest growth rate in the nation. The lower dollar will help mining activity outside the energy sector, but the Mountain states should remain weak relative to the nation through 1989.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Arizona	3.5%	5.7%
Colorado	(0.2)	8.1
Idaho	3.8	9.1
Montana	1.0	9.1
Nevada	6.9	6.6
New Mexico	1.8	8.6
Utah	1.5	6.3
Wyoming	(0.9)	8.6
Total:	2.1	7.8

Mountain Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

Mountain Region: Discount Store Count

Chain	Stores
K mart	138
Yellow Front	126
Target	38
Wal-Mart	32
Best Products	27
Pic 'N' Save	27
Pay Less NW	26
ALCO	25
Fred Meyer	25
Pamida	15
Smitty's	15
Service Merchandise	12
ShopKo	11
Value House	6
Price Club	5
PACE	4
Tri-State Distributors	4
Buyer's Club	3
Costco	3
Fed-Mart	3
Price Savers	3
Pamida Discount Center	2
Sam's Wholesale Club	1
Furr's	1
Total:	**552**

Source: DSN research

Phoenix:

The Competition Is as Hot as the City's Summers

PHOENIX, Ariz. — Metropolitan Phoenix is experiencing a slowdown in the double-digit growth rate that marked this Southwest boom town in the early- to mid-80s. While its rate of growth may be slowed, Phoenix is still considered a relatively strong market, featuring such dynamic retailers as Target, Smitty's, Home Express and the soon-to-arrive Wal-Mart.

From 1980 to 1986, Phoenix was the fastest-growing major (one million or more) metropolitan area in the country. Its population rose 26 percent to 1.9 million, making the metropolitan area the 21st largest in the country, according to the U.S. Census Bureau.

Much of this growth was spurred on by the poor economies in other parts of the country, with many people migrating to Phoenix from the Central states. Double digit growth took place during the 1984 to 1986 period. Though area economists say that frantic pace has slowed somewhat, Phoenix still remains relatively strong compared to other areas of the country.

In 1985 and 1986, between 15,000 to 18,000 people entered metropolitan Phoenix's population base each quarter. However, the first quarter figures for 1988 showed only 7,000 new people migrated to the area, said Lee McPheters, director of the Economic Outlook Center at Arizona State University.

Though its frantic growth rate of 1984 to 1986 has slowed somewhat, Phoenix still remains relatively strong.

Metropolitan Phoenix is encompassed within the 9,127 square miles of Maricopa County; over half of the state's population resides here.

This slowing in population has created some problems for the area's economy, particularly in construction, as overbuilding has resulted in excess capacity in categories like multi-unit housing, according to Terry Trost, vice president and chief economist of the Phoenix Chamber of Commerce.

Other sectors have also slowed in growth, such as manufacturing and services—because much of their business relies on manufacturing, said Paul Perry, economist with First Interstate Bank in Phoenix.

Local economists expect employment in Phoenix to expand some three to four percent during the next two years, about half the growth rate of 1984 through 1986. "There is a slowdown in the rate of growth, not a negative growth," noted Trost.

Retail sales for metropolitan Phoenix are expected to grow by some five to six percent in the coming months, which while better than many areas, will still only translate into relatively flat growth after adjustments for inflation, area economists said.

Total retail sales reached $12.3 billion in 1986 for greater Phoenix, where the median age is 31 years and the median household income is $31,000, according to the 1987 Inside Phoenix report by the *Arizona Republic/Phoenix Gazette*.

Phoenix: Discount Store Count

Chain	Stores
Yellow Front	26
K mart	12
Smitty's	12
Target	10
Pic 'N' Save	3
Price Club	3
Total:	**66**

Source: DSN research

Vying for these retail dollars are all classes of retailers, including discounters like K mart, Target, Smitty's and Yellow Front, promotional retailer Mervyn's, and warehouse clubs Price Club and Price Savers.

While some of these retailers are still looking to expand in the area, other retailers are looking or planning to enter the greater Phoenix market for the first time—including electronics/appliances retailer Circuit City and home furnishings chain Home Express.

Wal-Mart to Enter Arizona

Wal-Mart is set to enter Arizona this year. In keeping with its marketing philosophy, the chain will initially stay out of metropolitan Phoenix and instead enter surrounding towns.

For existing and incoming Phoenix retailers, several key operating factors have to be taken into consideration. Temperatures do indeed go very high during the summer months, often eclipsing the 100 degree mark. While most people go from their air conditioned houses to their air conditioned cars and then into air conditioned stores, certain traffic patterns are changed during the hot months.

Large regional malls become key draws, as do major anchors in strip centers. However, smaller, non-destination stores along an outdoor center can see sales decline because of less walk-by traffic, explained Paul Smith, owner of the Arizona Retail Group, a tenant real estate representative.

The summer heat also affects new site construction requirements and expenses. Smith said Price Savers recently had to spend half a million dollars more than the chain normally spends on an air conditioning system at a new Phoenix location.

Retailers must also keep the year-long warm temperatures in mind for their merchandising strategies. However, the "major difference is the timing, not the product mix," said Sean Lee, Yellow Front president, who noted that winter nights do get cool, so retailers have to stock fall merchandise during a portion of the year.

The Phoenix retail environment is also affected by the yearly migration to the area by "snowbirds." Mostly retired people, and thought to number over 100,000, these people flock to the area starting in the early fall months and can stay as long as early summer.

Despite this transitory group that leaves in the summer and the summer heat that could make residents reluctant to leave their cool homes, area discounters said there is very little fluctuation in monthly sales volume. However, there is an increase in advertising during this time, said Dennis Christensen, retail advertising sales manager with the *Arizona Republic/Phoenix Gazette*.

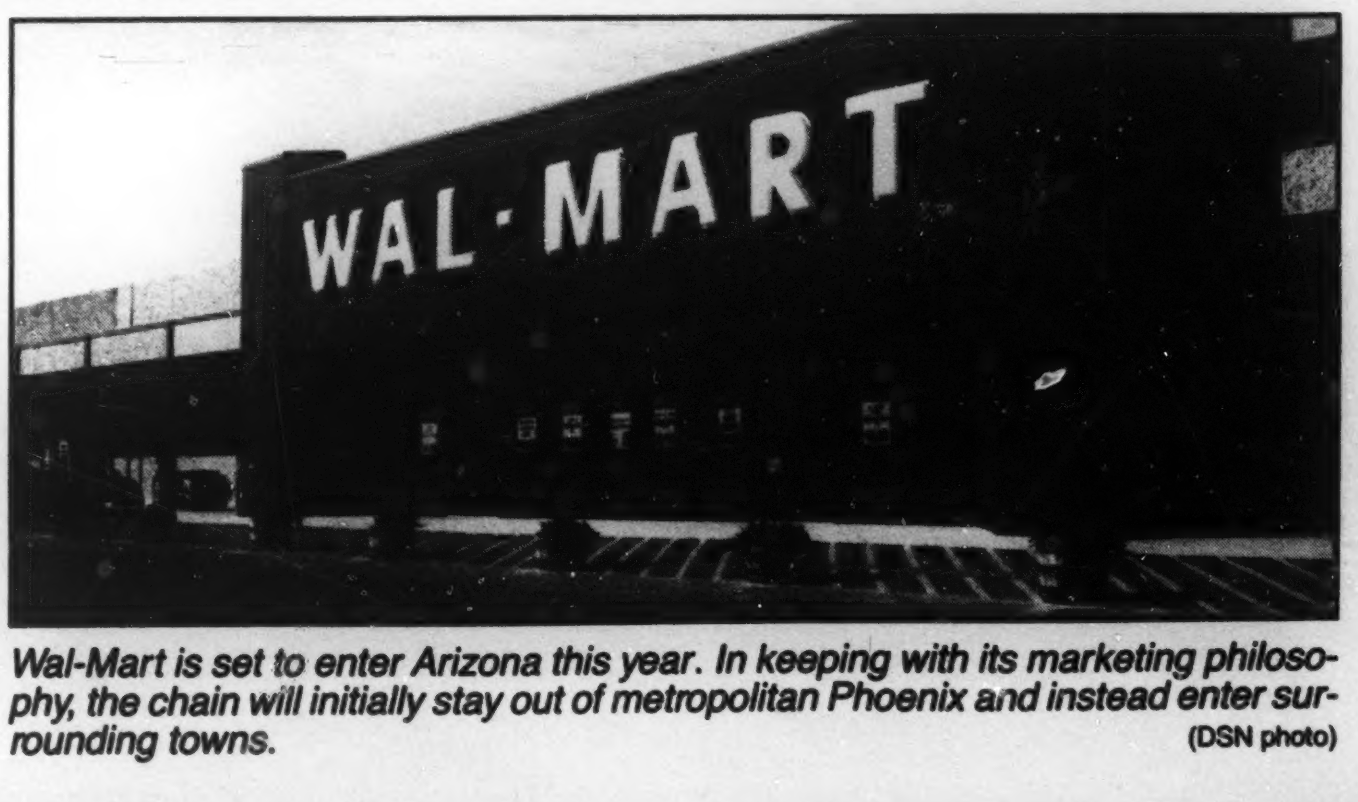
The Phoenix market also poses a strong competitive environment among retailers, "where you are constantly looking out for sites and where people are going to be next," explained Marc Weidinger, director of corporate planning for Smitty's.

In a recent study by the *Republic/Gazette*, which reviewed shopper traffic over a 30-day period, Smitty's drew 44 percent of the adults surveyed. The study also showed that 47 percent of the adults had shopped K mart, while 26 percent had been to Mervyn's and 43 percent had gone to Target.

Cross-shopping during the 30 days showed that over 60 percent of K mart's shoppers went to both Mervyn's and Target, and Target shoppers also flocked to K mart and Mervyn's to the same degree. However, only about 35 percent of Mervyn's customers cross-shopped at K mart and Target.

Among Phoenix consumers who shop exclusively at only one of the major discount retailers, K mart scored the highest, with 28 percent of its customers shopping only at K mart and not at Mervyn's or Target.

Area observers expect the Phoenix market's competition will continue to heat up as more retailers enter the market and prime real estate begins to diminish. However, the market is still seen as viable and should continue to expand in retail sales, population and economic growth over the coming months.



Wal-Mart is set to enter Arizona this year. In keeping with its marketing philosophy, the chain will initially stay out of metropolitan Phoenix and instead enter surrounding towns.

(DSN photo)

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Discount Store News.®
THE NEWSPAPER OF DISCOUNT RETAILING

Out of the Fire, But Into...?

Recession. Not likely. But discounters can't discount the possibility. Seven months after the 'Crash,' DSN explores how economic uncertainty is affecting all aspects of operations, from marketing to store design to technology. The exclusive report presents an outlook on national and regional economies and examines how discounter sales will fare in the coming months.

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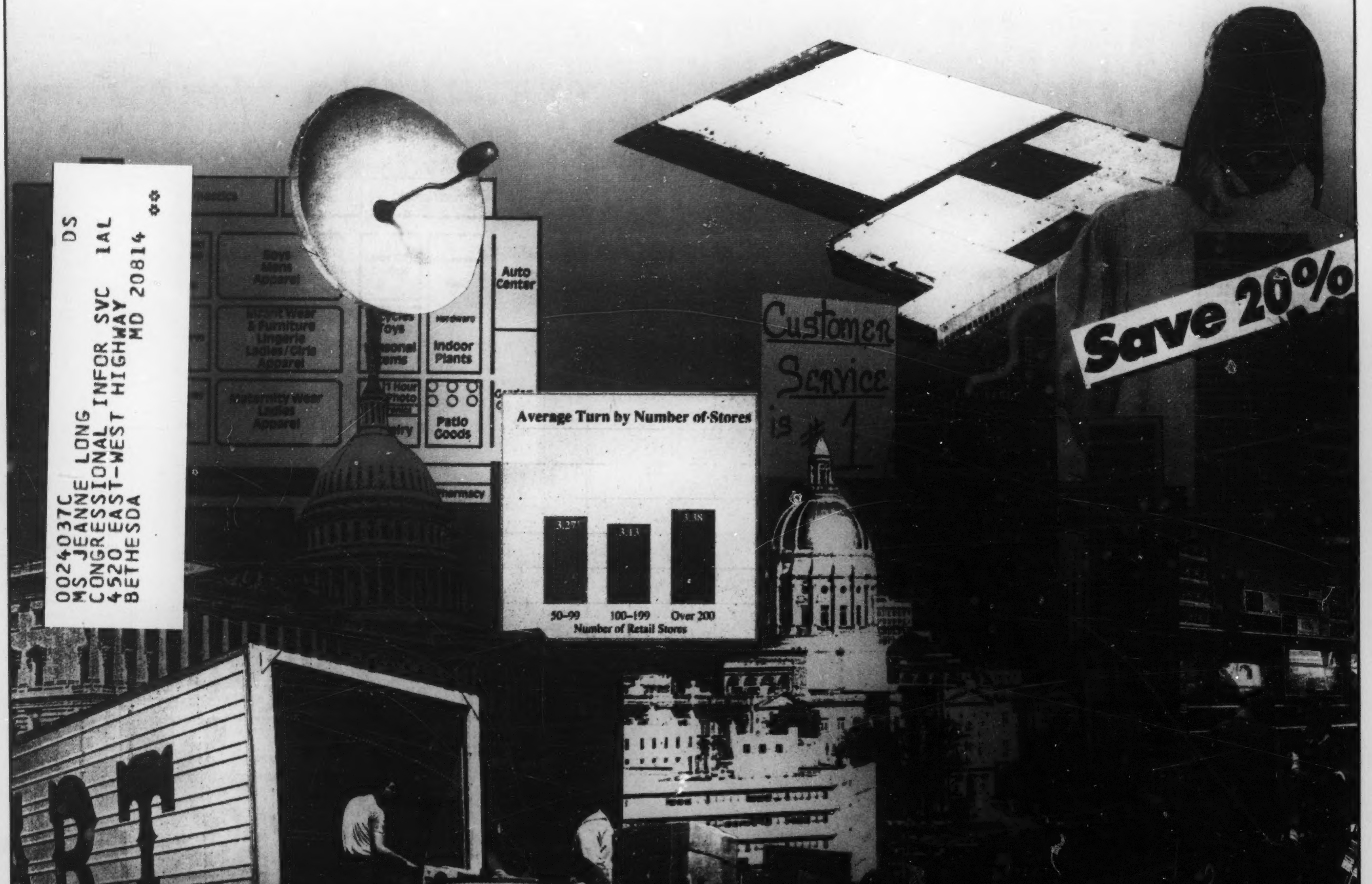
Boys Mens Apparel
Infant Wear & Furniture Lingerie Ladies/Girls Apparel
Maternity Wear Ladies Apparel
Cycles Toys
Seasonal Items
Hardware
Indoor Plants
Patio Goods
Auto Center
Pharmacy
Average Turn by Number of Stores
3.27
3.13
3.38
50–99
100–199
Over 200
Number of Retail Stores
Customer Service is #1
Save 20%

5/31/88

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Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

VOL. 27, NO. 11

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Price Verdict Threatens Future of Discounting

WASHINGTON — In a major legal setback for consumers and the discount store industry, the U.S. Supreme Court opened the door for full-margin retailers to conspire with manufacturers to prevent price cutting by competing retailers.

The ruling, which will leave discounters vulnerable to termination by key suppliers, held that as long as there is no agreement to set specific prices or price levels, it is no longer automatically illegal for a supplier and a higher-priced dealer to conspire to cut off sales to a competitor.

The decision in the case of *Business Electronics Corp. vs. Sharp* undermines 77 years of legal precedent whereby such agreements have been treated as automatic violations of federal antitrust law.

The 6-2 verdict has already come under heavy fire from the International Mass Retail Association as "harmful to consumers and price competition."

According to IMRA government relations vice president Robert Verdisco, "The court's unfortunate decision means that higher-priced retailers will not only be able to complain to their suppliers about more-efficient, lower-priced competitors, but can also try to coerce an agreement to eliminate their competition."

The net result "is likely to be lessened competition and higher prices for the nation's consumers," he predicted.

In contrast, Reagan administration antitrusters called the ruling a "step in the right direction" and an indication that the Supreme Court recognizes the importance of regulating trade to promote maximum economic efficiency.

Significantly, however, the high court stopped short of declaring that all forms of retail

(Continued on page 215)

Discounters Divided on 'Son of Fair Trade'

Nationwide DSN Report

Discounter reaction varied widely to the Supreme Court ruling allowing a vendor to cut off a discounter when a full-price competitor complains.

Some called it "Son of Fair Trade," while another said the discounting industry has become too entrenched to be hurt by the ruling.

Others said it's impossible to tell what the effect will be. K mart disclosed intentions to fight the decision by lobbying for a bill now before Congress that would make it easier to get a jury to look at suspected price fixing conspiracies.

"We have no idea as to whether it will have any impact," a Wal-Mart spokeswoman said. Wal-Mart has assigned a staff attorney to study possible ramifications.

K mart is taking a more ac-

(Continued on page 215)

K mart Kids Club Targets K marters of the Future

TROY, Mich. — K mart has created a new marketing program aimed at developing the next generation of K mart shoppers.

Called the K mart Gym Kids Club, the program promotes youth fitness for children ages 7 to 14. It also offers unique marketing, merchandising and licensing opportunities for K mart via the club's newsletter, specially-created logo and mascot caricature, Gymnast-A-Cat.

K M A R T
GYM KIDS
C L U B

The idea for the K mart Gym Kids Club grew from the discounter's new sponsorship of the U.S. Olympic Gymnastics team and the U.S. Gymnastics Federation, said Mike Wellman, vice president, marketing. The gymnas-

(Continued on page 215)

Zayre Taps Zarkin of HomeClub To Head Troubled Discount Division

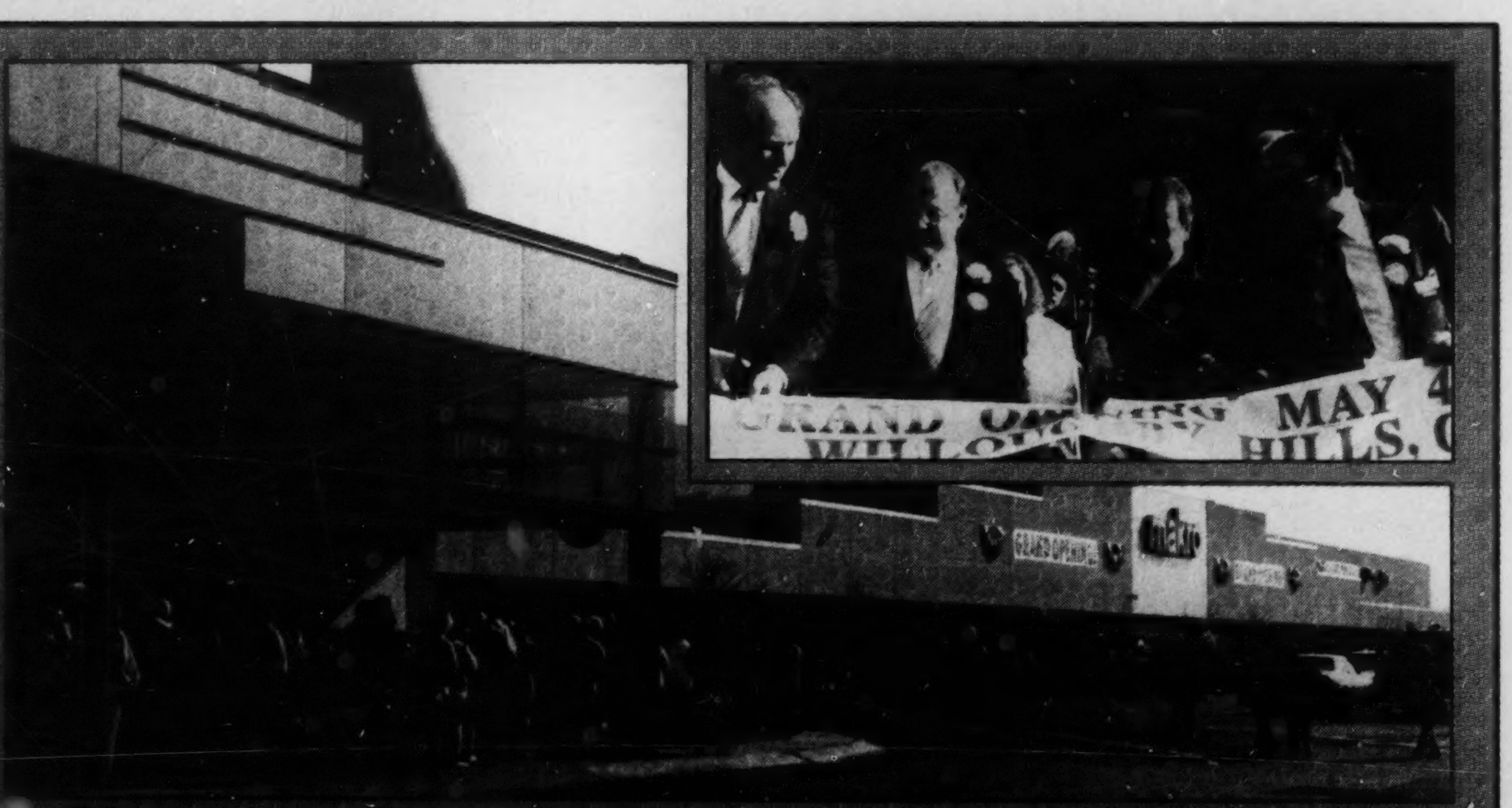
FRAMINGHAM, Mass. — Herbert J. Zarkin has been named chairman of Zayre Stores, filling the vacancy created when Malcolm Sherman stepped down from that post last July.

Zarkin assumes responsibility for the fourth largest discount store chain in the country whose sales and earnings levels have been slipping since early 1987. Reports for the fourth quarter ended Jan. 30 state the division suffered a gross income loss of nearly $17 million for the quarter, and about $14 million in losses for the year.

Herbert J. Zarkin, formerly president of Zayre Corp.'s HomeClub home improvement subsidiary, was named chairman of Zayre Stores.

Reporting to Zarkin are: Stanley M. Adler, Zayre Stores president; Robert Alger, senior executive vice president, operations and distribution services; Donald G. Campbell, senior vp, finance and administration; and Robert Brummer, senior vp, human resources.

Zarkin has been with the Zayre organization since 1961, when he started as a stockboy. His promotions include store manager; sales promotion manager; executive vp, marketing, advertising, sales promotion and real estate; and HomeClub president in 1986.



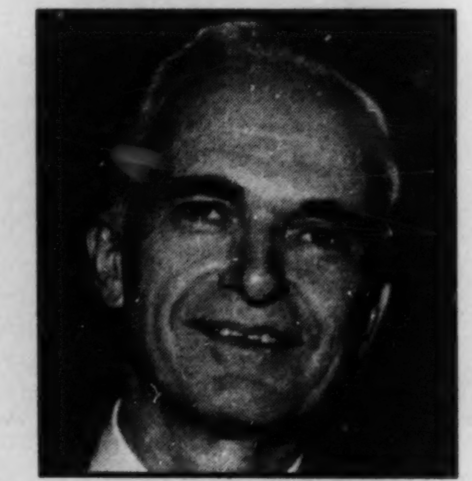
Shoppers Crowd Makro Opening in Cleveland

More than 1,000 people lined up for the grand opening of Makro in Cleveland on May 4. Cutting the ribbon (from left): Bob Stark, the developer; Joseph Antonini, chairman of Makro parent K mart Corp.; Lou Fick, store manager; and Joseph Nusim, president of Makro. (DSN photos)

A Farewell of Sorts

What Makes Winners In Discount Retailing?

By Richard Groberg



Joe Nusim could have talked about a lot of things earlier this month, the evening of the opening of Makro's first joint venture store with K mart. What he talked about mainly in his remarks to friends, suppliers and associates was their people. In fact, he spent more than three-quarters of his time at the microphone on that subject.

He identified his management team, one by one. He had them stand up and be seen. He gave their background and credentials and area of specialization. And he wound it all up by saying that he knows that the Makro/K mart venture will do well primarily for one reason. His people are as good or better than anyone in the business.

(Continued on page 11)

Largest IMRA Convention Issue Ever

MARKETWATCH

Wal-Mart Completes Helen's Divestiture

BENTONVILLE, Ark. — Wal-Mart has completed the previously announced divestiture of its three-unit Helen's Arts and Craft division. Michaels Stores, Irving, Texas, which already operates 97 craft stores, bought the units for $2.3 million. The retailer also appears poised to invade the Chicago market with three discount stores in outlying communities of the Windy City between late summer and next spring. According to a report in a local business newspaper, the new stores will be serviced out of the chain's Mount Pleasant, Iowa, regional distribution center.

Tuesday Morning Adds 5 Southern Units

DALLAS — Tuesday Morning, the deep discount general merchandise chain based here, has opened five new stores simultaneously on April 28 in Lexington, Ky.; Montgomery and Mobile, Ala.; Shreveport, La.; and St. Louis. The openings are in keeping with the company's primarily Southern and Southwestern real estate strategy, although recent openings concentrated on more Northern markets like Chicago and Baltimore. The company now operates over 90 stores in 18, mainly Southern, states and features name brand, first-quality merchandise—mainly overruns and remnants—at discounts of 50 percent to 80 percent.

Saveco Files Bankruptcy Petition in Calif.

RIVERSIDE, Calif. — Saveco has filed a bankruptcy petition in an effort to "reorganize the operations" of its single membership warehouse club here. Michael A. Arechigo, a former K mart district manager, is serving as acting president in place of company founder Gerald H. Bittner. Bittner has "re-contributed" his 500,000 shares of Saveco stock to the company, reducing the firm's market capitalization to 2 million shares. In a move to cut costs, Saveco shut its other store in Gardena, Calif., last fall.

Zayre Corp. Debt Rating Downgraded

NEW YORK — Moody's Investors Service has downgraded some $238 million of the long-term debt of Zayre Corp. The rating service cited expectations that operating returns from Zayre discount stores will rebound slowly from their depressed levels and the parent company's operating profits will continue to be lackluster. In 1987, Zayre discount stores suffered an operating loss because of poor sales and inventory write-offs, Moody's said, blaming them on poor merchandising, an unsuccessful promotional sales strategy and inefficient distribution. Zayre's specialty apparel division, TJX Cos., and its BJ's Wholesale club operations should continue to be strongly profitable, Moody's said.

N.E. Cataloger Opens Mass. Unit

WOONSOCKET, R.I. — Save-Rite, a four-unit catalog showroom operator, opened its fifth location last month, in Milford, Mass. The 25,000-square-foot showroom neighbors a K mart store at the intersection of state Route 109 and Interstate 495. The other four showrooms operated by the 24-year-old cataloger are in East Providence and Warwick, R.I.; Fall River, Mass.; and New London, Conn.

Gee Bee Adds 23rd Unit in Pa.

YORK, Pa. — Glosser Brothers, operators of Gee Bee discount department stores and Dollar Bargain Outlets, opened its 23rd Gee Bee store here on April 6, the second store in this city. The 63,000-square-foot unit is located off of exit 7 on Interstate 83. Gee Bee operates stores in Pennsylvania, Maryland, West Virginia and since September, in Virginia. Last fall, Gee Bee opened its first store in Manassas, Va. In March, it opened its second Virginia unit, in Harrisonburg. Further expansion is planned for this year.

Closeouter Pic 'N' Save Opens in South

CARSON, Calif. — Closeout specialist Pic 'N' Save opened its first Southern store, in Shreveport, La., last month. Prior to the opening, Pic 'N' Save operated units in eight Western states from California to Texas. The now 125-store chain will continue its entry into the South this year with the opening of stores in New Orleans and Bossier City, La. Pic 'N' Save is currently building a distribution center in New Orleans, which, when completed in 1990, is expected to serve new stores in the South and Southeast.

K mart Expands Brokerage Program

DETROIT — K mart has added leased discount brokerage centers in four stores here, with the financial facilities operated by the Olde Discount Corp. brokerage firm. Earlier this year, the Olde Discount Corp. leased space in four New Jersey K mart units, in the first deal between the two companies.

Exclusive Consumer Study:

Toy Depts. Rate High at Discounters

Nationwide DSN Report

Toys, housewares, stationery, and health and beauty aids have been identified by consumers as offering the best potential for growth for discount stores, according to the preliminary results of an exclusive national consumer buying survey conducted for *Discount Store News* by Leo J. Shapiro & Associates, a Chicago-based research firm.

The comprehensive report, which will be published in its entirety by *DSN* later this year, analyzes 15 departments in which discount department stores do business.

Highlights of the survey, which is based on interviews conducted with 900 households nationwide, will include:

- Number of consumers purchasing products within each of the 15 departments;
- Share of dollars spent at discount stores;
- Consumer evaluation of discount department stores compared to other retailers;
- Number of consumers planning to do more or less buying in discount stores;
- Demographic characteristics of discount store shoppers by department;
- Performance of major discount stores in each category.

The report also revealed that 70 percent of U.S. households said that discount stores have improved over the past five years.

In addition, the survey report will reveal how each of the 15 departments is performing. For example, the preliminary report reveals that of the 15 departments, toys is the highest rated.

Furthermore, the report will identify the reasons consumers increase their purchases in a particular department. For example, selection was mentioned as a key requirement needed to support growth in toys.

The in-depth analysis of this exclusive survey will be published in the Sept. 12, 1988, issue of *DSN*. For details of the preliminary report, contact: Tony Lisanti, editor, (212) 371-9400, ext. 221.

Hills: 168 Units by Year-End

CANTON, Mass. — Hills Department Stores will open 15 units during the second half of 1988—a total of 16 for the year—bringing its store count to 168 by year-end.

So far this year, Hills has opened just one unit, its fourth in Indianapolis.

Hills has announced sites for just 10 of the 15 stores: five in Ohio, three in Pennsylvania and one each in Michigan and Indiana. The remaining locations will be revealed at a later date, said Nan Rutter, director of consumer affairs.

This fall, Hills will open stores in Mentor and Willowick (Cleveland), and in Piqua, Ironton and Marietta, Ohio. By year-end, Hills will have 37 stores in Ohio.

The three new Pennsylvania stores will open in Bloomsburg, Cranberry and Ebensburg, for a state total of 44.

The one new Michigan store will be in Kalamazoo, bringing that state's total to eight.

And, with the opening of a fifth Indianapolis store, Hills will operate 15 Indiana stores.

Seven of the new stores will sport 80,000-square-foot layouts, and three will follow the new 62,000-square-foot prototype, for smaller markets.

Hills, with '87 sales of more than $1.51 billion and net profit of almost $32.5 million, reported in a recent 10-K document filed with the Securities and Exchange Commission that opening a new store involves $1.75 million in capital.

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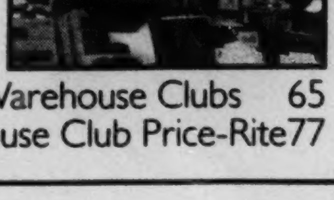

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Discounters' February Sales Rise 11% Over 1987

Nationwide DSN Report

Discount department store sales rose a modest 1 percent from January to February to an unadjusted $4.26 billion, an 11.2 percent increase over the same period a year ago, according to the U.S. Commerce Department.

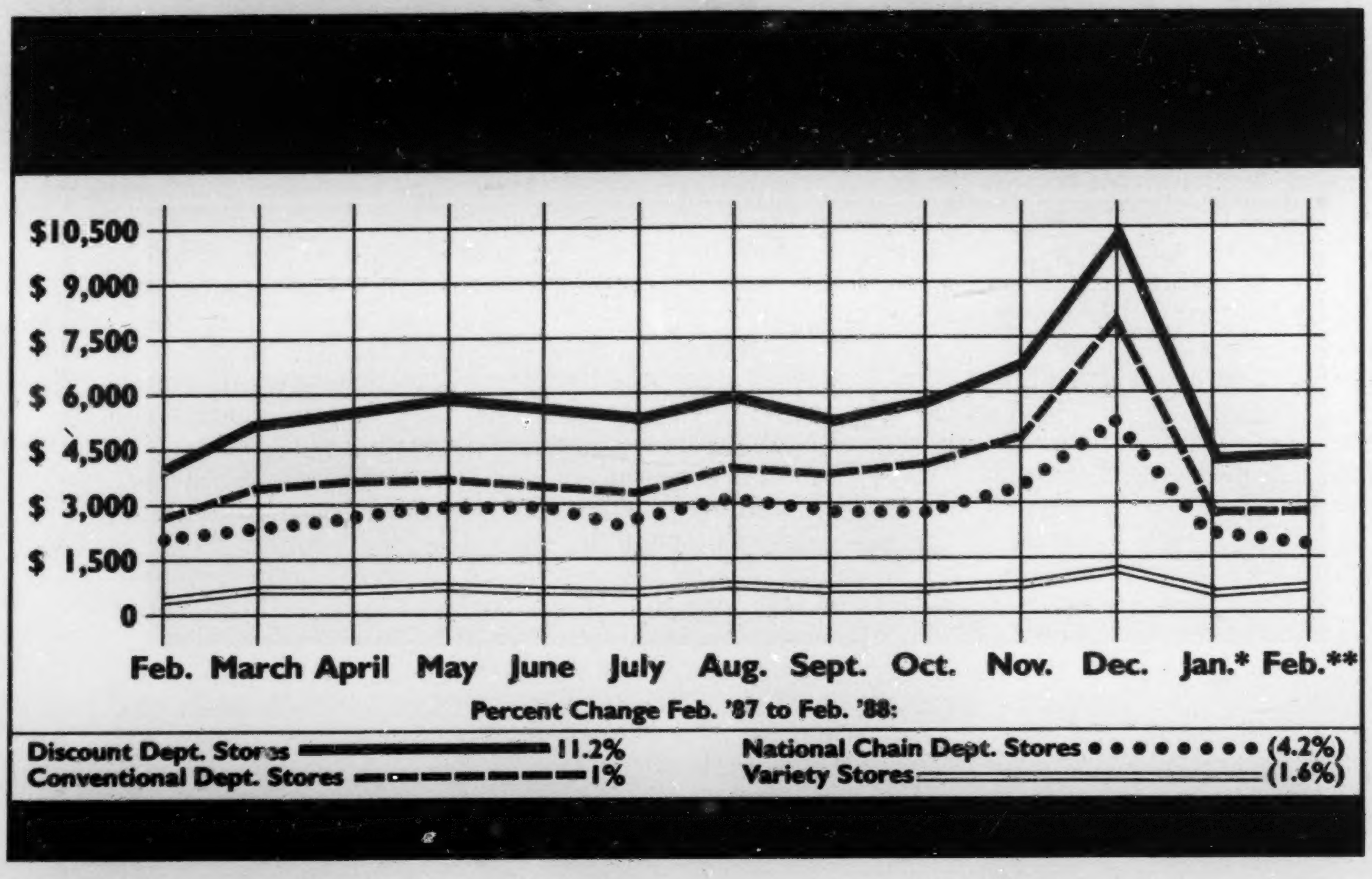
That February-to-February sales increase constituted the largest single sales increase in the general merchandise category, in what was a rather bland sales month for retailers, according to the Commerce Department's monthly retail trade report.

General merchandise store sales, which include discount stores, produced $10.61 billion in sales in February, unadjusted, a 2.8 percent increase over January and a 3 percent gain over February 1987.

Conventional department stores, also part of the general merchandise category, posted the largest January-to-February sales gain, 9 percent.

Sales at conventional department stores rose from $2.6 billion in January to $2.84 billion in February, and were up 1 percent from February 1987.

Only national chain department stores recorded both a year-to-year and a month-to-month sales decline in February. Sales at national chain department stores fell 3.5 percent in February to an unadjusted $2 billion. That's 4.2 percent below the February 1987 sales report which posted receipts of $2.17 billion.



February's variety store sales surged 5.2 percent ahead of January to an unadjusted $548 million, but were 1.6 percent below the $557 million recorded just one year ago.

At miscellaneous general merchandise stores, sales rose 5.3 percent in February to $1.24 billion, unadjusted, but were down 2.8 percent from February 1987.

Total February retail sales in the United States inched up a mere 1 percent over January, to $114.79 billion, unadjusted, 9.2 percent above last February, according to the Commerce Department.

Excluding automobile sales, retail receipts totaled $87.34 billion in February, down 1.5 percent from January and 6.3 percent above February 1987.

The monthly retail trade report released sales data for a host of other retail segments. Their February sales performances proved more erratic than those in the general merchandise group. They include:

- Sporting goods stores and bicycle shop sales, down 0.7 percent in February, to $996 million, unadjusted, up 18.3 percent from February 1987;
- Book stores, down 41.2 percent in February, to $427 million, down 0.2 percent from last February;
- Furniture, home furnishings and equipment store sales, down 0.5 percent from January, to $5.95 billion, up 10 percent from last February;
- Radio and TV stores, down 1.3 percent from January, to $1.68 billion, unadjusted, and up 15.7 percent from February 1987; and
- Apparel and accessory stores, down 4.4 percent in February, to an unadjusted $4.84 billion, up 1 percent from the same period last year.

A Farewell of Sorts: What Makes Winners in Discounting?

(Continued from page 5)

The fact is, no retailer in our business has ever been able to excel over the long haul, no matter how brilliant the concept, the locations or the backing, without having in place a good top-to-bottom people spirit. Joe knows this the hard way. He's been around long enough to have seen all sides of what separates the winners from the losers.

Which brings me to the reason for this column, which is a farewell of sorts with special regards to the people I met, traveled and worked with during the great American retail revolution that produced discount retailing.

It has been 25 years since my name first appeared on the masthead of *Discount Stores News*: as editor in 1963, publisher in 1966, and group publisher and corporate vice president in 1974. All this time with *Discount Store News* until this month, when my name will slip down the masthead to the "corporate" post of vice president of human resources for our parent company, Lebhar-Friedman.

Which brings me back to Joe's focus on his people. In these 25 years I have had the rare privilege of getting to know some of the most brilliant and successful merchants in the business. I shared their dreams and successes and failures, as a business editor/publisher and as a friend.

Over the time I've wondered why some went on to glory, while others didn't. Hindsight may not be 20/20, but I'll share some thoughts on this.

Discounting in the fifties was a rough and tumble, no rules, merchant-dominated time. From Herb Huschman's Two Guys—where they filed serial numbers off TV sets and perfected transhipping to get the branded goods—to Selwyn Lemchen's Topps (later part of Interstate). He was an intuitive merchant who once saved an overbought deal on two carloads of toilet paper by polybagging them and blowing them out at a 12-count price.

Gutsy, innovative merchants led the parade in the 1950s. Success was euphoric as new rebels of retailing fed the post-war demand at bargain prices and in a carnival atmosphere.

But the real winners were the merchants who were leaders. They built their own people chemistry that gave the business its adrenaline—inside and out. Take Korvettes. They laughed at Gene Ferkauf's stickball crew, his high school buddies without any special retail experience. But the chemistry was there and they became the nucleus for Korvette's spectacular growth to the No. 1 spot in discount retailing for more than a decade. Imagine building a business of close to a billion dollars a year in the most competitive markets in the United States—Chicago, New York, St. Louis. They pumped enough adrenaline to take the play away from established traditionals like Federated's A&S.

At least until the drive of the initial dream was undermined by a couple of internal problems. Among them, the inability of good, intuitive merchants to run a multimillion dollar business with the necessary financial and operational smarts. But the other key reason was that the people chemistry soured. And with it, the dream.

That's one of the prime reasons that the successful discounters of the 1960s were those who added financial expertise to their merchandising excellence. Some, like Wal-Mart, reached out for talent. Others got bought. Many traditional retailers (Kresge, Woolworth) brought their talents to discounting when they joined the rebels in the '60s.

What made K mart a winner from the start was Harry Cunningham's homework and the resulting plan to latch an ailing dime store chain onto the new discount phenomenon. What fueled and re-energized the K mart growth were three things:

- Financial strength and expertise;
- Total commitment. It never wilted—to a point in year three where Harry Cunningham was able to get cheers from the stockholders when he announced they were cutting their dividend to help speed the expansion of their born-again company through K mart;
- The Kresge management team. Six hundred seasoned Kresge store managers. Good chemistry. And they prioritized the training and recruiting from the start.

Looking at the survivors in the 1970s, and those who didn't, the fall-out factor was probably market strategy. Woolworth's Woolco and Penney's Treasury are examples—both discount arms from companies with good people, with financial strength. But when the chips were down in the tough competitive market of the '70s, they couldn't win the battle of market share as discounters.

Take Arlan's vs. Wal-Mart's strategy, as we reported in our tenth anniversary issue (December 1972):

Arlan's Ed Spector saw the industry growing "while undergoing a slow evolutionary transition during the '70s. I don't think that if you were to look back at discount stores 10 years from now you would notice any radical change from the stores of today."

> ***'Even more today, you need the people and the people chemistry to make it happen.'***

Wal-Mart's Sam Walton addressed the critical need to traffic stores more effectively with these ideas:

He saw the ideal future shopping center composed of a discount department store with a supermarket and central checkouts under one roof, along with perimeter specialty units. "All stores in the complex would have to be low-margin discount operations to achieve maximum traffic," Walton said. "The entire center would be operated by one discounter."

Shades of Garland, Texas, some 15 years and $13 billion later!

As for Herb Palestine's Arlan's, that great innovator and industry front runner of the early years became history, only shortly after Ed Spector's 1972 remarks. And in fact, Arlan's typifies the early successful discount pioneers. They had the merchandising smarts and took the risks in the free-wheeling '50s and '60s. (Enough to do $337 million in 1971.) But they lost out to the players with stronger financial abilities, and market focus, and a lasting and loyal team. Many ex-Arlan's people are in top jobs around the business today. But as a team, the company had lost the cohesiveness, start-up commitment and spirit.

To these universal success factors—merchant's sense, financial stability—we see the ability to harness the new technology as a new challenge to successful discounters in the 1980s and beyond. The front runners are those companies which have a commitment to create more productive stores—and equally, more efficient ways to move goods to the consumer, whether by stores, mail or electronic channels.

On that point, nothing's changed in the basic mission of a good merchant, and even more today, you need the people and the people chemistry to make it happen. And we're betting that these same universal success factors will carry the front runners of our business into 2013.

I would like to think, in closing, that these same standards for success apply to good publishing, and that we have made a valued contribution to our customers for that reason. Toward that end you will see other changes on our masthead as this publication and all our publications open new opportunities to our talented and developmental people, and as a better way to give value to our readers and advertisers.

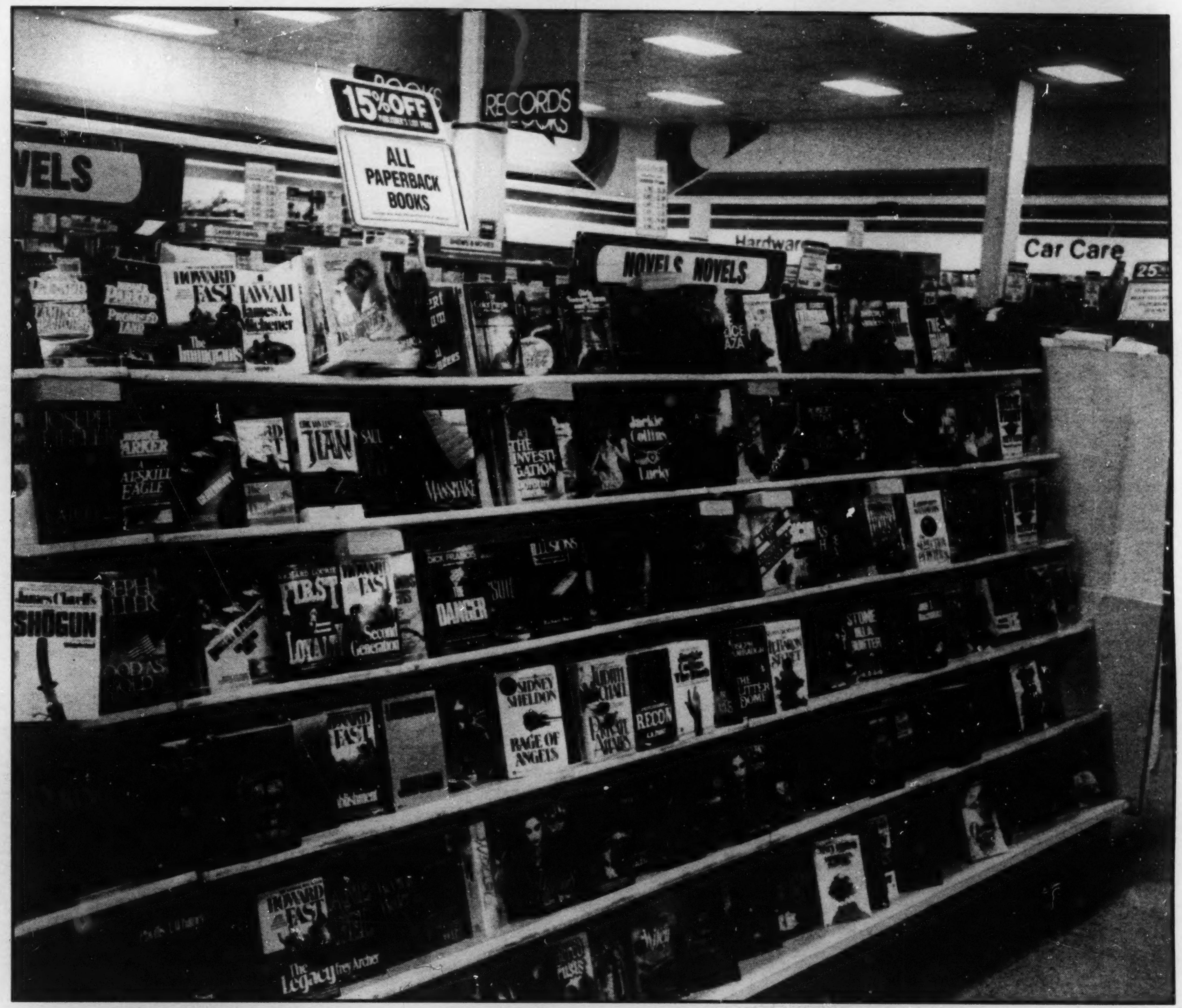
On the editorial side, my thanks for the good hand you have extended over the past year to our new generation editor and executive editor—Tony Lisanti and Don Longo. And on the business side, publisher Fred Filer, who has piloted this publication to record-setting levels over the last four years, was recently named corporate vp with additional corporate assignments.

Also moving up to new publishing responsibilities is John Failla, who has done a fine job as national sales manager. He now adds the title of associate publisher for *HomeMarket Trends*.

And to top it all off, Jim deGraffenreid, who started with this publication as a salesman 11 years ago, now returns as senior vp and group publisher.

I know you will make our people welcome in the same spirit in which you have helped me and all our associates to feel a part of this great business of discount retailing.

Reviews Are Good for Discounters' Book Sales



Research by the Book Industry Study Group found that among discounters, the main reason to carry books is to convey the one-stop shopping image. The secondary reason is to help sell other merchandise and produce impulse sales. (DSN photo)

NEW YORK — Discount and department store retailers garnered nearly $50 million or 10 percent of the $500 million retail book market last year, the second largest non-bookstore segment, according to a just-released study by the Book Industry Study Group.

Sales are expected to accelerate in the coming years, retailers reported in the survey.

The only non-bookstore segment that is larger than discount stores is grocery outlets, with 13 percent of all book sales.

The report, the first ever commissioned by BISG of non-bookstore retailers, was conducted by Coopers & Lybrand, one of the nation's largest accounting firms. It was undertaken because research showed that one of every four books purchased in the United States was bought at outlets other than bookstores. The BISG wanted to know more about these retailers (*DSN*, March 28).

The year-long study found that discounters' primary reason for carrying books is to convey the one-stop shopping image; second is to help sell other merchandise and produce impulse sales; and third is to make money.

Sales Up 7 Percent

In general, the study revealed that book departments are a growing business for non-bookstore operators, with half of the companies interviewed reporting sales have risen 7 percent or more over the past five years. Another 30 percent reported sales gains of 5 percent annually.

The trends are toward expanded departments, cross-merchandising and more selection. In general, the best-selling book category for discounters and non-bookstore retailers is juvenile.

The study also revealed that mass market retailers:

- are served primarily by distributors;
- want to be treated as an important book outlet by publishers and not as an add-on to bookstores;
- want publishers to be more interested in their unique operating qualities; and
- want more promotions and more consistent cooperative ad policies just like their other merchandise categories.

The biggest surprise of the report, said Roy Chefets of Coopers & Lybrand, was how well mass merchandisers reported they are doing with books and how interested they are in expanding the category. "They were excited to talk to us," Chefets said. No retailer interviewed for this survey mentioned cutting back on book titles or eliminating the department.

Types of Books Sold by Mass Merchandisers

Subject	Percent
Bestsellers	12-20%
General Romances	15
Novels	10
Historical Romances	10
Young Readers (Romance, Sports)	10
Westerns	8
Science Fiction	5
Other	22-30

Source: Gallup interview

Coopers & Lybrand interviewed 63 retailers, including seven discounters: Ames, K mart, Hills, Bradlees, Odd Lot Trading Co., Fishers Big Wheel, and Van Leunens. Although the discounters were identified in the appendix of retailers interviewed, they were not specifically identified within the text or in the charts. But some were easily recognizable, particularly K mart, which reported a 150 percent to 200 percent sales gain in the 126 Readers Market formats that its subsidiary, Waldenbooks, operates for the discounter.

The report also included interviews with toy/hobby retailers Toys "R" Us, Toys Galore, Toys By Roy, Craft Showcase, and Harvey's Store.

Buyers Club, Warehouse Club, and Wholesale Plus were the three warehouse clubs interviewed in the survey, and auto supply retailers Hi-Lo Consolidated, Trak Auto, and Western Auto were the representative operators in the auto supply category.

Coopers & Lybrand also interviewed four home center companies, four drug store retailers, three grocery operators, and two each from airport shops, stationery and office supply stores, computer/electronics, convenience stores, tabletop, and specialty store retailers.

BISG and Coopers & Lybrand chose these retailers because they are large, influential chains and would be the most insightful in this category.

Exactly how good, financially, books are for retailers was one piece of information the report failed to provide. Retailers were not precise about sales per square foot and inventory turns. But they did report gross margins of between 20 percent and 50 percent. Discounters, however, maintain book margins of between 22 percent and 26 percent, comparable with total store gross margins of 26.8 percent.

According to specialty distributors, discounters generally operate book departments that range from 80 square feet to 120 square feet. But the discounters interviewed for this report said their book departments range from 36 square feet to 1,000 square feet, the largest of which was clearly K mart's Readers Markets.

Standardized Book Packages

About half of all mass merchandise chains are served by two specialty distributors that supply them with standardized book packages that account for approximately 80 percent of their inventory. The selections break down as follows:

- 12 percent to 20 percent are bestsellers;
- 15 percent, general romances;
- 10 percent each are for novels, historical romances and young readers (romance and sports);
- 8 percent, Westerns;
- 5 percent, science fiction; and
- 22 percent to 30 percent are listed as other.

Generally, book departments at mass merchandisers consist of 70 percent to 80 percent mass market paperbacks, 5 percent trade paperbacks, and 10 percent to 15 percent hardcover books. They are usually 10 percent to 50 percent off the list price.

At K mart, half the book sales are in mass market paperbacks; 25 percent are trade hardcover; 15 percent, trade paperback; and 10 percent juvenile. Of that, 20 percent are promotional books; 33 percent are fiction; 15 percent are paperback bestsellers; 15 percent romance; 10 percent juvenile; 10 percent hardcover bestsellers; 15 percent how-to; and 1 percent each for reference books and sports titles.

At warehouse clubs, books are sold from departments ranging from 15 square feet to 100 square feet and are discounted up to 40 percent. Warehouse clubs seem to like higher-priced books, especially gift and reference books, where they can offer substantial discounts. They carry mass market paperbacks, trade paperbacks, hardcovers, and juvenile board books.

Warehouse clubs carry 50 to 1,000 book titles that are usually limited to bestsellers, higher-priced cookbooks, how-to, references, gift books, sports, and some inspirational titles.

Book departments at toy stores range from 4 linear feet to 48 linear feet, with between 25 and 1,200 titles of juvenile board books, flats, coloring books and puzzles. These retailers also offer trade paperbacks and comics. Juvenile board books, however, comprise about 90 percent of their sales. Books are priced from the publisher's list price to 10 percent to 15 percent below the list.

Auto supply stores reserve about 12 linear feet to books with titles on tune-ups, repairs and DIY.

Primarily, non-bookstore retailers, particularly mass merchandisers, purchase their inventory from distributors. The only exception to this is with juvenile books, which are increasingly purchased directly from publishers in order to attain higher margins.

The most popular kind of distributor servicing mass merchandisers is the specialty distributor, because he services accounts nationwide and attempts to know the nuances of each retailer. This distributor also believes in cross merchandising books throughout the store to encourage add-on sales, which complements the merchandising approach of discounters.